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ABSTRACT

This document contains transcripts of United States Senate hearings of March, 1981, on the Youth Opportunity Wage Act of 1981. The proposed Act would set a lower minimum wage for work performed by youth under the age of 20; and extend the allowable lower wages to be paid in other industries besides the food service and retail industries where they are now legal under certain circumstances. Testimony and statements were given by Senators, union representatives, representatives of minority advocacy groups, and representatives of various business and retail industry groups. All those testifying expressed concern over the impact of teenage unemployment, but held varying views on whether a lower minimum wage for teenagers would alleviate the problem. Proponents of the proposed legislation testified that it would create thousands of jobs for unskilled young people who are now priced out of the job market by increases in the minimum wage. They said that these youths' skills are just not worth the minimum wage to employers, but if the minimum were lowered, employers would be able to hire more youths rather than doing without this marginal labor. Opponents of the bill contended that a subminimum wage would benefit fast food chains and other major employers of young people while thousands of adult workers, who make up 70 percent of the minimum-wage work force, would be displaced by youths earning lower wages. In addition, opponents of the bill argued that the country has a moral obligation to maintain a living wage for its workers. (Prepared statements are included in the document.) (KC)

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YOUTH OPPORTUNITY WAGE ACT OF 1981

HEARINGS BEFORE THE SUBCOMMITTEE ON LABOR OF THE COMMITTEE ON LABOR AND HUMAN RESOURCES UNITED STATES SENATE NINETY-SEVENTH CONGRESS

FIRST SESSION

ON

S. 348

TO AUTHORIZE A YOUTH MINIMUM WAGE DIFFERENTIAL
UNDER THE FAIR LABOR STANDARDS ACT OF 1938, AND FOR
OTHER PURPOSES
AND RELATED BILLS

MARCH 24 AND 25, 1981



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(II)

CONTENTS

Text of:	Page
S. 348.....	3
S. 430.....	8
S. 658.....	12

CHRONOLOGICAL LIST OF WITNESSES

TUESDAY, MARCH 24, 1981

Donovan, Raymond J., Secretary of Labor; accompanied by Craig Berrington, Deputy Assistant Secretary, Employment Standards Administration; and David A. Williams, Assistant to the Deputy Under Secretary for Legislation.....	22
Macey, Waldo L., chairman Macey's, Inc., Murray, Utah, and vice chairman, National Association of Retail Grocers of the United States; and F. L. Stephens, president, Town and Country Food Stores, Inc., San Angelo, Tex., representing the National Association of Convenience Stores and the Texas Retail Grocers Association, a panel.....	82
Tiner, Michael, assistant director, government affairs, United Food and Chemical Workers International Union; Jacob Sheinkman, secretary-treasurer, Amalgamated Clothing and Textile Workers Union, accompanied by Elizabeth Smith, legislative representative, Amalgamated Clothing and Textile Workers Union; and John Sweeney, president, Service Employees International Union, accompanied by Richard Murphy, legislative representative, Service Employees International Union, a panel.....	109
Fields, C. H., assistant director, national affairs division, American Farm Bureau Federation; and Robert E. Bradford, executive vice president, National Restaurant Association, accompanied by Mr. and Mrs. Lynn Hunter, Highlands, N.J., and Arthur Castraberti, Saugus, Mass., a panel.....	138
Osterman Paul, professor of economics, Boston University; Robert Gallione, chairman, legislative committee, National Association of Student Employment Administrators; and Frank X. Viggiano, executive director, U.S. Student Association, accompanied by Curtis L. Pittman, director, National Third World Student Coalition, a panel.....	198

WEDNESDAY, MARCH 25, 1981

Percy, Hon. Charles H., a U.S. Senator from the State of Illinois.....	234
Abdnor, Hon. James, a U.S. Senator from the State of South Dakota.....	247
Roush, Michael O., legislative representative, National Federation of Independent Business; Fred Thorn, owner, C. J. Personnel Consultants, Inc., Virginia Beach, Va.; and John Burkhart, owner, Burkhart's, Murfreesboro, Tenn., a panel.....	249
Kirkland, Lane, president, American Federation of Labor and Congress of Industrial Organizations; accompanied by Ray Dennison, legislative director, AFL-CIO, and Rudy Oswald, director of research, AFL-CIO.....	273
O'Neill, June, director, program of policy research on women and families, the Urban Institute, Washington, D.C.; Masanori Hashimoto, associate professor of economics and public affairs, University of Washington, Seattle, Wash.; and Renault A. Robinson, commissioner, Chicago Housing Authority, Chicago, Ill., a panel.....	303

Lucy, William, president, Coalition of Black Trade Unionists, and secretary-treasurer, American Federation of State, County and Municipal Employees, accompanied by Horace Sheffield and Charles Hayes; Sol Chaikin, president, International Ladies' Garment Workers Union; and Alethea T. L. Simmons, director, Washington bureau, National Association for the Advancement of Colored People, a panel.....	Page 337
Panaro, Gerard P., general counsel, Retail Bakers of America; James R. Sloop, owner, the Sweet Shoppe Retail Bakery, High Point, N.C., and third vice president, Retail Bakers of America; Harold Suggs, distribution manager, Busken's Bakery, Cincinnati, Ohio; and Michael W. Ahern, member, government affairs committee, Society of American Florists, a panel.....	393

STATEMENTS

Abdnor, Hon. James, a U.S. Senator from the State of South Dakota.....	247
Amalgamated Clothing and Textile Workers Union, Jacob Sheinkman, secretary-treasurer, prepared statement.....	117
American Hotel and Motel Association, Albert L. McDermott, Washington representative, prepared statement.....	455
Association for Social Economics, Henry C. Mayer, chairperson, committee on public issues, prepared statement.....	422
Burkhart, John, owner, Burkhart's, Murfreesboro, Tenn., prepared statement.....	271
Donovan, Raymond J., Secretary of Labor; accompanied by Craig Berrington, Deputy Assistant Secretary, Employment Standards Administration; and David A. Williams, Assistant to the Deputy Under Secretary for Legislation.....	22
Fields, C. H., assistant director, national affairs division, American Farm Bureau Federation; and Robert E. Bradford, executive vice president, National Restaurant Association, accompanied by Mr. and Mrs. Lynn Hunter, Highlands, N.J., and Arthur Castraberti, Saugus, Mass., a panel.....	138
Prepared statement.....	141
Hashimoto, Masanori, associate professor of economics and public affairs, University of Washington, Seattle, Wash., prepared statement.....	323
Hotel and Restaurant Employees and Bartenders International Union, Robert E. Juliano, legislative representative, prepared statement.....	459
International Ladies' Garment Workers' Union, Sol C. Chaikin, president, prepared statement.....	349
Kirkland, Lane, president, American Federation of Labor and Congress of Industrial Organizations; accompanied by Ray Dennison, legislative director, AFL-CIO, and Rudy Oswald, director of research AFL-CIO.....	273
Prepared statement.....	289
Laborers' International Union of North America, AFL-CIO Robert E. Powell, first vice president, prepared statement.....	449
Lucy, William, president, Coalition of Black Trade Unionists, and secretary-treasurer, American Federation of State, County and Municipal Employees, accompanied by Horace Sheffield and Charles Hayes; Sol Chaikin, president, International Ladies' Garment Workers Union; and Alethea T. L. Simmons, director, Washington bureau, National Association for the Advancement of Colored People, a panel.....	337
Prepared statement.....	340
Macey, Waldo L., chairman Macey's, Inc., Murray, Utah, and vice chairman, National Association of Retail Grocers of the United States; and F. L. Stephens, president, Town and Country Food Stores, Inc., San Angelo, Tex., representing the National Association of Convenience Stores and the Texas Retail Grocers Association, a panel.....	82
Prepared statement.....	86
Manpower Demonstration Research Corp., William J. Grinker, president, prepared statement.....	426
Mincer, Jacob, professor of economics, Columbia University, prepared statement.....	504
National Association for the Advancement of Colored People, Althea T. L. Simmons, director, Washington bureau, prepared statement.....	372
National Association of Convenience Stores, F. L. Stephens, representing the, prepared statement.....	105

National Association of Manufacturers, Brenda McChriston, director, human resources and equal opportunity, prepared statement	Page 513
National Association of Student Employment Administrators, Robert Gallione, chairman, legislative committee, prepared statement	206
National Association of Theatre Owners, C. Glenn Norris, chairman of the committee on national legislation, prepared statement	493
National Farmers Union, Reuben L. Johnson, director of legislative services, prepared statement	458
National Restaurant Association, Robert E. Bradford, executive vice president, prepared statement (with attachments)	149
National Urban League, Inc., Maudine R. Cooper, vice president, prepared statement	416
New York County Lawyers' Association, Lawrence Monat, chairman, prepared statement	437
O'Neill, June, director, program of policy research on women and families, the Urban Institute, Washington, D.C.; Masanori Hashimoto, associate professor of economics and public affairs, University of Washington, Seattle, Wash.; and Renault A. Robinson, commissioner, Chicago Housing Authority, Chicago, Ill., a panel	303
Prepared statement	306
Osterman, Paul, professor of economics, Boston University; Robert Gallione, chairman, legislative committee, National Association of Student Employment Administrators; and Frank X. Viggiano, executive director, U.S. Student Association, accompanied by Curtis L. Pittman, director, National Third World Student Coalition, a panel	198
Prepared statement	201
Panaro, Gerard P., general counsel, Retail Bakers of America; James R. Sloop, owner, the Sweet Shoppe Retail Bakery, High Point, N.C., and third vice president, Retail Bakers of America; Harold Suggs, distribution manager, Busken's Bakery, Cincinnati, Ohio; and Michael W. Ahern, member, government affairs committee, Society of American Florists, a panel	393
Prepared statement	395
Percy, Hon. Charles H., a U.S. Senator from the State of Illinois	234
Prepared statement	240
Retail Bakers of America, Harold Suggs, distribution manager of Busken's Bakery, on behalf of, prepared statement	403
Roth, Hon. Toby, a Representative in Congress from the State of Wisconsin, prepared statement	483
Rottenberg, Simon, professor of economics, University of Massachusetts, Amherst, prepared statement	497
Roush, Michael O., legislative representative, National Federation of Independent Business; Fred Thorn, owner, C. J. Personnel Consultants, Inc., Virginia Beach, Va.; and John Burkhardt, owner, Burkhardt's, Murfreesboro, Tenn., a panel	249
Prepared statement	262
Service Employees International Union, John Sweeney, international president, prepared statement (with attachments)	129
Sloop, James R., owner, Sweet Shoppe Retail Bakers, and third vice president, Retail Bakers of America, prepared statement	399
Society of American Florists, Michael W. Ahern, on behalf of, prepared statement	409
Student Progressive Coalition, prepared statement	485
Tiner, Michael, assistant director, government affairs, United Food and Chemical Workers International Union; Jacob Sheinkman, secretary-treasurer, Amalgamated Clothing and Textile Workers Union, accompanied by Elizabeth Smith, legislative representative, Amalgamated Clothing and Textile Workers Union; and John Sweeney, president, Service Employees International Union, accompanied by Richard Murphy, legislative representative, Service Employees International Union, a panel	109
Prepared statement	111
United States Student Association, Francis X. Viggiano, executive director, and the National Third World Student Coalition, Curtis L. Pittman, director, joint prepared statement	212

ADDITIONAL INFORMATION

Articles, publications, etc.:

Comprehensive Investigations by the Wage and Hour Division of the U.S. Department of Labor	Page 67
Expanding Employment Opportunities for Disadvantaged Youth, Fifth Annual Report to the President and the Congress of the National Commission for Employment Policy, December 1979	32
Federal Minimum Wage: Impact on Consumers, Employers, and Retail Grocers, a report by the National Association of Retail Grocers of the United States, January 1981	92
Labor—Who's Helped, Hurt If Youths Are Paid Less, from the U.S. News and World Report, March 30, 1981	80
Minimum Wage and Minority Employment Opportunities—The Real Impact of Government-Mandated Programs, by Walter E. Williams, from the National Federation of Independent Business	250
Communications to:	
Kirkland, Lane, president, American Federation of Labor and Congress of Industrial Organizations, from Hon. Dan Quayle, a U.S. Senator from the State of Indiana, March 27, 1981	489
Nickles, Hon. Don, a U.S. Senator from the State of Oklahoma, from:	
Davis, Hilton, Vice President, Legislative and Political Affairs, Chamber of Commerce of the United States, Washington, D.C., March 23, 1981	221
Palmer, Robert, associate counsel, National Restaurant Association, Washington, D.C., March 23, 1981	231
Platt, Ronald L., vice president, public affairs, Burger King Corp., Miami, Fla., March 20, 1981	223
Power, Thomas W., general counsel, Food Service and Lodging Institute, Washington, D.C., March 23, 1981 (with enclosure)	226
Questions and answers:	
Responses of Sol C. Chaikin, president, International Ladies' Garment Workers' Union to questions asked by Senator Williams	382
Responses of Lane Kirkland, president, American Federation of Labor and Congress of Industrial Organizations, to questions asked by Senator Quayle	490

YOUTH OPPORTUNITY WAGE ACT OF 1981

TUESDAY, MARCH 24, 1981

U.S. SENATE,
SUBCOMMITTEE ON LABOR,
COMMITTEE ON LABOR AND HUMAN RESOURCES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:35 a.m., in room 4232, Dirksen Senate Office Building, Senator Don Nickles (chairman of the subcommittee) presiding.

Present: Senators Nickles, Hatch, Stafford, Quayle, Hawkins, Kennedy, Randolph, Williams, and Riegle.

Staff present: Richard C. Lawson and Charles T. Carroll, majority co-counsels; and Charlene M. Abshire, executive assistant.

OPENING STATEMENT OF SENATOR NICKLES

Senator NICKLES. Good morning. Today and tomorrow, this subcommittee will explore what has become a national burden of unparalleled magnitude—youth unemployment. Even as this hearing begins, more than 1.6 million of this country's teenagers are unemployed. Of particular significance, 35 percent of all minority youth do not have a job, and this jobless rate continues its alarming rise every year. Here is a work force waiting to partake in the fruits of its labor, and yet it is stifled in a country that calls itself the land of opportunity.

It is time for innovation and institutional changes which will allow an unrestrained free enterprise system to increase employment opportunities for youth. Youth employment is not just a means to supplement family income or to earn extra spending money. The absence of early work experience may lead to an unsuccessful work future. That first job teaches individuals employment search techniques, work habits, provides self-respect and confidence, and provides the opportunity to make mistakes at times when mistakes are not likely to be as costly as they would be when a worker has dependents counting on him for support.

The absence of the opportunity is also likely to contribute to many kinds of anti-social behavior. Many economists noted for their studies on youth unemployment agree that teenagers who cannot find jobs are being turned off to the system, often shifting their attention to less desirable pursuits. There is evidence that juvenile delinquency varies directly with the level of youth unemployment.

No one in this room would deny that youth unemployment is a serious socio-economic problem that must be solved. Granted, there may be no easy solutions, but Government attempts to stop or even slow down teenage unemployment have failed miserably. Govern-

(1)

mental efforts to reduce joblessness through vigorous monetary and fiscal policies have produced devastating results for youth. Less jobs are provided for youth and more jobs are provided for experienced bureaucrats.

What we should be concerned about is opportunity and productivity. Yet, many employers refuse to hire teenagers because they do not believe that the unskilled job seekers are worth the minimum wage. Temple University economist, Dr. Walter E. Williams, who has devoted years to the study of youth unemployment, says the minimum wage law discriminates against the employment of those Americans whose output is less than the minimum wage. Stanford University economist, Dr. Thomas Sole, who testified before this committee 4 years ago, notes that in the late 1940's and early 1950's, black youngsters 16 to 17 years old had consistently lower unemployment rates than whites in the same age bracket. No one will claim that there was less employer discrimination then than now. He says that the difference was that the minimum wage had not yet begun the rapid rise of spreading coverage, which has been the dominant pattern since.

In a Washington Star editorial criticizing minimum prevailing wages, Dr. Williams is quoted:

Society will continue to view the difficulty that minorities have in fully entering the mainstream of American society as group incompetence, and the most racist elements of society will have their prophecies realized. Hardly anyone acknowledges that many, if not most of the problems encountered are due neither to the group nor to individual incompetence, but to the excesses of Government influence by politically powerful interest groups.

It is obvious that because of increasing employment costs, many service jobs have been replaced by mechanization or eliminated altogether. Michigan State University economist, Daniel Hammermesh, in a report for the Minimum Wage Study Commission, concluded that by creating an opportunity wage of 75 percent of the current minimum wage, it would produce at least 380,000 jobs for teenagers.

New York Mayor Edward Koch and Los Angeles Mayor Thomas Bradley have already volunteered their cities to be used for pilot programs for an opportunity wage.

Today, we will be considering and reviewing three proposals: Senate bill 348, as proposed by Senator Hatch; Senate bill 430, as introduced by Senator Percy; and Senate bill 658, my proposal.

Senator Hatch's bill would apply to youth under 20 years of age and would provide a youth differential of 75 percent of the current minimum wage. Senator Percy's bill would establish a youth differential for individuals under the age of 20 at 85 percent of the current minimum wage. My bill would exempt persons under the age of 18 from the minimum wage.

[The texts of S. 348, S. 430, and S. 658 follow:]

97TH CONGRESS
1ST SESSION

S. 348

To authorize a youth minimum wage differential under the Fair Labor Standards Act of 1938, and for other purposes.

IN THE SENATE OF THE UNITED STATES

JANUARY 30 (legislative day, JANUARY 5), 1981

Mr. NICKLES (for Mr. HATCH) introduced the following bill; which was read twice and referred to the Committee on Labor and Human Resources

A BILL

To authorize a youth minimum wage differential under the Fair Labor Standards Act of 1938, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That this Act may be cited as the "Youth Opportunity Wage
4 Act of 1981".

5 YOUTH OPPORTUNITY WAGE

6 SEC. 2. (a) Section 14(b) of the Fair Labor Standards
7 Act of 1938 (29 U.S.C. 214(b)) is amended to read as
8 follows:

1 “(b)(1) To encourage youth employment an employer
2 may employ any youth who has not attained 20 years of age
3 for a period of 180 days, without prior or special certification
4 by the Secretary of Labor, at a wage rate not less than 75
5 per centum of the otherwise applicable wage rate in effect
6 under section 6 (or in the case of employment in Puerto Rico
7 or the Virgin Islands not described in section 5(e) at a wage
8 rate not less than 75 per centum of the otherwise applicable
9 wage in effect under section 6(c)) in compliance with applica-
10 ble child labor laws. This paragraph shall not apply to any
11 youth employee who has been employed by the same employ-
12 er for a period of at least 6 months or is currently employed
13 by an employer at a rate of at least the minimum wage in
14 effect on the day prior to the date of enactment of the Youth
15 Opportunity Wage Act of 1979.

16 “(2)(A) To encourage youth employment, an employer
17 or institution of higher education may employ any full-time
18 student (regardless of age but in compliance with applicable
19 child labor laws) at a wage rate not less than 75 per centum
20 of the otherwise applicable wage rate in effect under section
21 6 (or in the case of employment in Puerto Rico or the Virgin
22 Islands not described in section 5(c), at a wage rate not less
23 than 85 per centum of the wage rate in effect under section
24 6(c)).

1 “(B) Any full-time student so employed under this para-
2 graph by an employer other than an institution of higher
3 education shall prior to such employment present to the
4 employer a letter from the institution at which the student is
5 enrolled certifying that such student is a full-time student
6 enrolled at that institution.

7 “(C) Any full-time student employed pursuant to this
8 paragraph shall be employed on a part-time basis and not in
9 excess of 20 hours in any workweek, except during vacation
10 periods.

11 “(3) While no prior certification shall be required by the
12 Secretary for purposes of paragraphs (1) and (2), the Secre-
13 tary is authorized under this Act to insure that the provisions
14 of paragraphs (1) and (2) of this subsection are not violated.
15 Whenever the Secretary discovers that an employer is em-
16 ploying youth at a wage rate lower than the wage rate allow-
17 able under this subsection or at a wage rate lower than the
18 applicable wage rate under section 6 after the period of time
19 specified by this subsection, or is engaged in a pattern and
20 practice of—

21 “(A) substituting younger workers employed at
22 less than the minimum wage for older workers em-
23 ployed at or above the minimum wage, or

24 “(B) terminating the employment of youth em-
25 ployees and employing other youth employees in order

1 to gain continual advantage of the youth opportunity
2 wage,

3 the employer shall be deemed to have violated section 6 of
4 this Act. The liability of such an employer under this para-
5 graph shall include—

6 “(i) unpaid wages and overtime compensation de-
7 termined on the basis of otherwise applicable minimum
8 wage and overtime rates pursuant to sections 6 and 7
9 of this Act, and

10 “(ii) a fine to be determined by the Secretary not
11 to exceed \$2,500 for the first offense by an employer
12 and not to exceed \$10,000 for any subsequent offense
13 by the same employer.

14 “(4) To minimize paperwork for, and to encourage,
15 small businesses to employ students under special certificates
16 issued under paragraphs (1) and (2), the Secretary shall, by
17 regulation or order, prescribe a simplified application form to
18 be used by employers in applying for such a certificate for the
19 employment of not more than 6 full-time students. Such an
20 application shall require only—

21 “(i) a listing of the name, address, and business of
22 the applicant employer,

23 “(ii) a listing of the date the applicant began busi-
24 ness, and

1 “(iii) the certification that the employment of such
2 full-time students will not reduce the full-time employ-
3 ment opportunities of persons other than persons em-
4 ployed under special certificates.”.

5 (b) Section 13(a)(7) (29 U.S.C. 312(a)(7)) is amended to
6 read as follows:

7 “(7) any employee to the extent that such em-
8 ployee is exempted by regulations, order, or certificate
9 of the Secretary under section 14, or in accordance
10 with the provisions of section 14(b); or.”.

97TH CONGRESS
1ST SESSION

S. 430

To authorize a youth minimum wage differential under the Fair Labor Standards Act of 1938, and for other purposes.

IN THE SENATE OF THE UNITED STATES

FEBRUARY 5 (legislative day, JANUARY 5), 1981

Mr. PERCY (for himself, Mr. THURMOND, Mr. ABDNOR, Mr. PRESSLER, Mr. SYMMS, Mr. HUMPHREY, and Mr. TOWER) introduced the following bill; which was read twice and referred to the Committee on Labor and Human Resources

A BILL

To authorize a youth minimum wage differential under the Fair Labor Standards Act of 1938, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That this Act may be cited as the "Youth Employment Op-
4 portunity Act of 1981".

5 YOUTH EMPLOYMENT OPPORTUNITY ACT

6 SEC. 2. (a) Section 14(b) of the Fair Labor Standards
7 Act of 1938 (29 U.S.C. 214(b)) is amended to read as
8 follows:

1 “(b)(1) To encourage youth employment an employer
2 may employ any youth who has not attained twenty years of
3 age, for a period of one hundred and eighty days, without
4 prior or special certification by the Secretary of Labor, at a
5 wage rate not less than 85 per centum of the otherwise appli-
6 cable wage rate in effect under section 6 (or in the case of
7 employment in Puerto Rico or the Virgin Islands not de-
8 scribed in section 5(e) at a wage rate not less than 85 per
9 centum of the otherwise applicable wage in effect under sec-
10 tion 6(c)) in compliance with applicable child labor laws. This
11 paragraph shall not apply to any youth employee who has
12 been employed by the same employer for a period of at least
13 six months or is currently employed by an employer at a rate
14 of at least the minimum wage in effect on the day prior to the
15 date of enactment of the Youth Employment Opportunity Act
16 of 1981.

17 “(2) While no prior certification shall be required by the
18 Secretary for purposes of paragraph (1), the Secretary is au-
19 thorized under this Act to insure that the provisions of para-
20 graph (1) of this subsection are not violated. Whenever the
21 Secretary discovers that an employer is employing youth at a
22 wage rate lower than the wage rate allowable under this
23 subsection or at a wage rate lower than the applicable wage
24 rate under section 6 after the period of time specified by this
25 subsection, or is engaged in a pattern and practice of—

1 “(A) substituting younger workers employed at
2 less than the minimum wage for older workers em-
3 ployed at or above the minimum wage, or

4 “(B) terminating the employment of youth em-
5 ployees and employing other youth employees in order
6 to gain continual advantage of the wage provided for
7 under this subsection,

8 the employer shall be deemed to have violated section 6 of
9 this Act. The liability of such an employer under this para-
10 graph shall include—

11 “(i) unpaid wages and overtime compensation de-
12 termined on the basis of otherwise applicable minimum
13 wage and overtime rates pursuant to sections 6 and 7
14 of this Act, and

15 “(ii) a fine to be determined by the Secretary not
16 to exceed \$2,500 for the first offense by an employer
17 and not to exceed \$10,000 for any subsequent offense
18 by the same employer.”.

19 (b) Section 13(a)(7) (29 U.S.C. 312(a)(7)) is amended to
20 read as follows:

21 “(7) any employee to the extent that such em-
22 ployee is exempted by regulations, order, or certificate
23 of the Secretary under section 14, or in accordance
24 with the provisions of section 14(b); or”.

1 SEC. 3. (a) The amendments made by this Act are re-
2 pealed, effective three years after the date of enactment of
3 this Act.

4 (b) The Secretary of Labor shall prepare and submit a
5 biannual report to the Congress on the effect of the amend-
6 ments made by this Act. Such report shall include—

7 (1) the number of persons employed at the wages
8 prescribed under the amendments made by this Act;

9 (2) the number of employers employing persons at
10 wages prescribed under the amendments made by this
11 Act;

12 (3) the general rate of unemployment of persons
13 under twenty years of age;

14 (4) the effect of the amendments made by this Act
15 upon employment of adults and persons under twenty
16 years of age; and

17 (5) such other information as the Secretary of
18 Labor determines appropriate.

97TH CONGRESS
1ST SESSION

S. 658

To amend the Fair Labor Standards Act of 1938 to exempt employees who are under eighteen years of age from the provisions of section 6 of that Act, and for other purposes.

IN THE SENATE OF THE UNITED STATES

MARCH 10 (legislative day, FEBRUARY 16) 1981

Mr. NICKLES introduced the following bill; which was read twice and referred to the Committee on Labor and Human Resources

A BILL

To amend the Fair Labor Standards Act of 1938 to exempt employees who are under eighteen years of age from the provisions of section 6 of that Act, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That this Act may be cited as the "Youth Opportunity Wage
4 Act".

5 SEC. 2. Section 13 of the Fair Labor Standards Act of
6 1938 is amended by adding at the end thereof the following
7 new subsection:

1 “(k)(1) The provisions of section 6 shall not apply to any
2 employee who has not attained eighteen years of age.

3 “(2) Nothing in this subsection shall be construed to
4 exempt any employee described in paragraph (1) of this sub-
5 section from the provisions of section 7, relating to overtime
6 compensation, or section 12, relating to child labor, if such
7 sections would otherwise apply to the employee.”.

8 SEC. 3. (a) Section 14(b) of the Fair Labor Standards
9 Act of 1938 is repealed.

10 (b) Section 14 of such Act is amended by redesignating
11 subsections (c) and (d) of such Act as subsections (b) and (c),
12 respectively.

Senator NICKLES. Today, I think we are very fortunate to have many distinguished guests who will give their expertise and testimony on behalf and in opposition to these proposals. I wish to emphasize and reemphasize that today, we are here in support of America's young people, trying to open the door of economic opportunity and livelihood for them and for their future. I think the action that we take and that the Congress takes can keep today's unemployed youth from becoming tomorrow's dejected adults.

Senator HATCH, did you have an opening statement?

Senator RANDOLPH. Mr. Chairman, could I interrupt?

Senator NICKLES. Yes.

Senator RANDOLPH. I hesitate to do this because I am not one to ask to speak out of order. An appointment was made for the minority leader and myself with a group of 25 service station dealers from West Virginia. They must return to the State soon. The appointment is set for 10 o'clock this morning in the Capitol.

My statement will be brief. If I could make it now, it would be very helpful to my scheduling problem.

Senator HATCH. By all means, go ahead.

Senator NICKLES. Please go ahead, Senator.

Senator RANDOLPH. I thank you, Mr. Chairman.

In 1938, the Congress enacted the Fair Labor Standards Act. In that act, a minimum wage of 25 cents an hour was established for all workers in interstate commerce. I supported and helped develop the original measure as a member of the Labor Subcommittee in the House of Representatives.

The policy of that act was to establish a floor under all wages; to support the work ethic; and to promote the welfare of American workers. What we did was sound then, and I think it is sound today. The minimum wage was 43.4 percent of the average manufacturing wage in 1938. Today, the recently effective \$3.35 per hour minimum wage equals 43 percent of that standard, down from 55.6 percent in 1968. An American worker, Mr. Chairman and my colleagues, currently receiving the minimum wage for 40 hours per week, 52 weeks per year, would earn \$6,432, approximately \$1,400 below the official Federal poverty income for a family of four. Clearly, the minimum wage is a base—for best, a low base—for wages.

Today, we are going to receive testimony on several proposals to establish a subminimum wage for teenagers. I and a majority of Senators voted against a similar proposal during consideration of the most recent amendments to increase the minimum wage in 1977.

At that time, many Senators felt that a subminimum wage would be a serious erosion of the principle of equal pay for equal work set forth in the same act, and, consequently a severe setback in the battle for equal employment opportunity for all Americans.

The youth unemployment rate is a serious problem facing American society. We are seeking to address it in our youth employment programs and through expanding the economy to create more jobs. A separate subminimum wage for youth would penalize a class of Americans, teenagers, by paying them lower wages than many are receiving today, but give them a financial edge in competing—I say competing—with the adult work force for the 11 million minimum

wage jobs currently in the work force. The logic behind such a proposal is, in my mind, and I have considered it very carefully, at best dubious, and the extension of this logic to other classes experiencing higher unemployment levels, I think, is likewise ill advised.

I appreciate very much the opportunity to make this statement and I hope to be able to return to the hearings.

Senator NICKLES. Senator Randolph, we appreciate your statement, especially in light of your expertise and experience. I believe you are probably the only Member of Congress who worked on that bill in 1938, and so we do welcome your advice and participation in these hearings.

Senator RANDOLPH. Thank you, Mr. Chairman.

Senator NICKLES. Senator Hatch?

Senator HATCH. Thank you, Mr. Chairman.

Mr. Chairman, I am pleased to attend the hearings this morning on the Youth Opportunity Wage Act. I believe this legislation represents one solution to the disgraceful national problem of youth unemployment, and I want to commend the Senator from Oklahoma for his leadership in arranging these hearings to properly consider the problem and the solutions.

In 1980, we had a youth unemployment rate of almost 18 percent, and of almost 36 percent for young blacks and minorities. Mr. Chairman, I find this situation reprehensible. Clearly, we are all to blame for not recognizing earlier that the minimum wage is in large part responsible for diminishing youth employment opportunities. The minimum wage restricts the availability of jobs for those teenagers who have not developed marketable skills or who have not obtained the necessary experience such that their work produces goods or services worth \$3.35 an hour to the employer.

We should ask ourselves just how these young people are to get the training and the experience they desire and which they need to have in order to be successful in life if we deny them the flexibility to negotiate a beginning wage with a potential employer.

The minimum wage ties the hands of both the employer and the young jobseeker. We have removed the bottom rungs from the ladder of employment by making it economically unfeasible for an employer to hire anyone without the skills, experience, or maturity to immediately earn the minimum wage in terms of an individual's productivity. How do young people get jobs without experience, and how do they get experience without jobs? Economic evidence bears this out.

Michigan State University economist, Daniel Hammermesh, noted, in a study of October 1980, that in the nonfarm sector, an increase of 10 percent in the minimum wage leads to a 1.2-percent drop in teenage employment. It is obvious that the minimum wage is pricing young people out of the job market. Even with all other factors being equal, a teenager, simply by virtue of his or her age, cannot compete with the age advantage held by adults.

It has been alleged that a youth opportunity wage would displace older adult workers from employment. Mr. Chairman, we can consider this argument only so long as we believe that there are a finite number of jobs in America. For displacement to be a significant, negative ramification of a youth opportunity wage, the situation would have to exist whereby for every person who obtained

employment, another lost it. This argument reflects unsubstantiated pessimism, as well as misunderstanding of the way our economy responds to incentives.

Given the positive correlation between the increases in the minimum wage and decreases in teenage unemployment, there is no reason to believe that if employers were given the incentive to hire and train young people, they would not take advantage of the opportunity to improve their customer services or their production capability.

After 8 years, we should also be realistic about the accomplishments of the Comprehensive Employment and Training Act (CETA). As well intentioned as these programs are, they have not succeeded in solving the problem of youth unemployment. While these programs undergo a thorough evaluation of their effectiveness as well as a determination of possible ways of improving the delivery of education and training to disadvantaged young people, let us not continue to ignore other viable elements of a solution to the problem of youth unemployment.

Mr. Chairman, it is disheartening to me to see young people become discouraged and cynical of our free enterprise system when they are unable to find jobs. It is disturbing that in lieu of meaningful employment, young people will occupy their time in an unproductive or possibly even criminal activities. These teenagers may become the hard-core unemployed of the future unless we are willing to do something about it. Their plight can be characterized as a new form of slavery. We cannot afford to sacrifice the talents and ambition of our young people in this way.

The youth opportunity wage will provide greater opportunities and incentives for employment and training, as well as the chance for young people to start up the ladder to economic self-sufficiency and personal self-esteem.

One last thing: The people who criticize this concept very seldom have any alternative suggestions other than more Federal Government programs. They have no suggestions, to stimulate jobs in the private sector that would really be meaningful opportunities for young people to get the training, the skills, and the experience to be able to produce in our society.

I have talked with a lot of people who have been critical of a youth opportunity wage. They do not have any alternatives other than more Government work, more Government spending, more Government regulation of business. Frankly, a lot of them have to admit that they do not know whether it will work or whether it will not. I think it deserves a chance; I think our kids deserve a chance; I think we ought to give them that chance.

Thank you, Mr. Chairman.

Senator NICKLES. Thank you, Senator Hatch.

Senator Williams, do you have a statement?

Senator WILLIAMS. Yes. Thank you, Mr. Chairman.

We have three youth subminimum bills before us, as I understand it. These hearings are essential to examine the important issue raised by these bills, and I commend you for your action in convening these hearing.

I am glad that Senator Randolph gave us some background; he was here in 1938 with the passage of the Fair Labor Standards Act.

As we all know, that marked the culmination of a decade-long campaign to establish certain minimum standards on the operation of our economy. An important part of that campaign was the effort to eliminate the industrial exploitation of our children and youth. Thus, the act establishes a basic minimum wage consistent with a minimum standard of living for all workers, not just adults.

In enacting the Fair Labor Standards Act, the Congress declared that the policy of our country was to protect the "maintenance of the minimum standard of living necessary for health, efficiency, and general well-being of workers." As such, the act stands as a basic affirmation of the dignity of our working men, women, and children.

Proposals to establish a youth subminimum wage run counter to the basic thrust of the Fair Labor Standards Act. These proposals would establish a subclass of workers who are not deserving of the dignity or protection accorded to all other classes of workers in our society. These proposals would signal a retreat from our efforts to establish a minimum standard of living for all workers.

The subminimum proposals before our subcommittee have been advanced as a solution to our youth unemployment situation. I, for one, reject the notion that the legitimacy of a subminimum wage should be determined on the basis of the unemployment situation of any particular class of workers, whether they are youth, the elderly, women, or minorities.

To establish a subminimum wage for youth would set a dangerous precedent for the discriminatory treatment of other classes of workers in our society. Indeed, to establish a subminimum wage for youth would have the predictable consequence of aggravating the unemployment situation of other adult workers. Aggravating the unemployment situation of adult workers in this way would be, in my judgment, one of the strongest reasons to reject this idea. This would be directly contrary to the sound, long-established principles that employers should not be permitted to compete against each other by paying substandard wages.

I have long been concerned about the youth unemployment problem; we all have. Those of us who are closest to it, with major city areas in our States, feel this deep concern. However, I do not feel that this problem is properly viewed as a function of the minimum wage. In my view, the solution to the youth unemployment problem does not lie in paying youth a lower wage, but in providing more effective, more meaningful youth employment and training programs.

It is my hope that as these hearings proceed, we will have an adequate opportunity to thoroughly examine the nature of the youth unemployment problem and the proposals before us for a subminimum wage.

Finally, Mr. Chairman, I believe that it is timely and appropriate that this committee conduct hearings to examine the adequacy of the current level of the minimum wage. The high rates of inflation over recent years have so eroded the purchasing power of our 11 million minimum wage workers that today's minimum wage in real dollars is nearly 9 percent below the 1967 minimum wage. The adequacy of the minimum wage is nothing less than a question of survival for these workers and for their families.

I believe it is timely to structure additional increases in the minimum wage that would be adequate to compensate for increases in the cost of living. Therefore, it is my hope that our committee will conduct more extensive hearings over the adequacy of the current minimum wage, perhaps in conjunction with hearings over the findings of the Minimum Wage Study Commission.

Thank you, Mr. Chairman.

Senator NICKLES. Thank you, Senator Williams.

Senator Stafford, did you have any comments?

Senator STAFFORD. Thank you very much, Mr. Chairman. I agree that these are very important hearings and that the unemployment among our youth is a very difficult problem for us as a nation. I look forward to getting some help and guidance from the witnesses today in trying to meet this problem, and I shall withhold further statement and wait for our witnesses' statements.

Senator NICKLES. Very good.

Senator Kennedy?

Senator Kennedy. Thank you.

The supporters of the youth subminimum wage must meet, I believe, a heavy burden of proof during the next 2 days of hearings if they are to convince this committee that their proposal has merit.

In the first place, we will not hear from such groups as the Urban League, the Leadership Conference on Civil Rights or the Women's Legal Defense Fund, which represent those Americans who will be most dramatically affected by a youth subminimum.

Business organizations which have ardently supported the youth differential in the past are curiously absent from these proceedings.

The results of a number of studies which will have a direct bearing on our consideration of this legislation are not yet available. The first detailed evaluation of the targeted jobs tax credit program, which provides a larger subsidy to employers who hire young workers than any of the bills before us, will not be available until June.

The report of the Minimum Wage Study Commission, which is evaluating a dozen important minimum wage issues, including the youth subminimum and an exemption which permits employers to pay 85 percent of the minimum wage to full-time students, is not due until May.

It would certainly be inappropriate to report legislation until these studies are before us and we have had an opportunity to thoroughly examine their findings.

I note, Mr. Chairman, that in just briefly reviewing the Secretary's statement itself, he points out that the administration wants to have an opportunity to examine these studies; he points that out on page 4 of his testimony, drawing the conclusion that the youth differential issue is currently being specifically addressed by the Minimum Wage Study Commission, which was created in 1977. "The Commission has contracted for a number of studies in this area and will report its findings to the Congress in May." They will want to carefully review the Commission's studies in this area.

Even on page 2, the administration has not been willing to take a position on the various proposals that are before us at the pres-

ent time. "However," says the Secretary, "I do not believe that we presently have sufficient information to allow us to endorse a specific legislative proposal."

So, I would gather that the administration, as well as many of us here who have expressed ourselves, have a continuing concern about this problem. But they are not prepared to state a position in terms of preference on the various pieces of legislation which are before this committee. They are referring us to a number of studies.

Many of us on this committee were here at the time when the targeted tax incentive program was accepted on the floor of the Congress. It was viewed then as an experimental program. And we were here when we were urging the studies to be done, the results of which we will have in June.

So, I want to make my continuing commitment and concern about youth employment very clear. But it does seem to me that we ought to be hearing the results of these commissions which have been established and are charged to report to the Congress before we are prepared to move on this particular issue.

I am sure that one of the issues that are going to concern themselves with is the question of who is losing ground with youth unemployment. The information which is provided by the Labor Department now shows that for youths between 16 and 24 in the past years, the employment level for white youths has risen quite significantly, while among minorities, it has declined rather dramatically.

I think it is going to be interesting to find out what a youth subminimum is going to do with regard to those float lines, which are rather dramatic over the period of the last 10 years. Is there going to be something magic about a subminimum wage that is going to reverse this particular line, or is it going to accelerate and accentuate the lines that heretofore have reflected what youth employment has been?

So, I am sure we would want to get into that, as well as the enforcement mechanisms under the differential. I think the administration is rightfully pointing out that they do not want to see a loss of the heads of households or the adult workers. They indicated that they want to make sure that that is not going to be the case. We are going to be interested in that kind of regulatory system, they propose how much governmental interference is involved and how much governmental bureaucracy is going to be built into that system, particularly when we read in some of our Nation's newspapers about the resurgence of sweatshops. We see them on television; they are obviously known to the public and to the news. We see the expansion and explosion of sweatshops going on at the present time.

So, what kind of assurance can we have that those who are going to be involved in the development of this program will not replace older workers that are charged to put bread on the table for their families and that these older workers will not be placed with other workers where there is not the whole range of benefits which would otherwise be available to them?

Finally, I just want to indicate that I agree with Senator Williams that in any review of the minimum wage—and I have been

on this committee for about 19 years and we have had several hearings on the minimum wage over a period of that time—we would have to examine the appropriateness of a recommendation to increase the minimum wage to keep pace with the inflation that we are facing in this country.

We are talking about people in this country that are in many instances living below the poverty line. What we are seeing now is a reduction of those kinds of Federal programs that were available to a whole range of individuals who moved out of poverty, moved into a minimum wage, and gradually began to move up in terms of employment and in terms of compensation and career possibilities. Support services for those individuals are being struck down rather dramatically.

It is going to be interesting to see now what kinds of incentives are going to be there for individuals to really get off welfare rolls. We have been wrestling with that issue over a long period of time. We have seen the minimum wage established, and yet we have seen the gradual phasing out of other support programs. Those programs, which have been labeled as benefits to those that are not really needy, are being either reduced or eliminated at the present time.

I think we are going to see the real possibility of fewer incentives for people to go out into the work force than exist at the present time. But as Senator Williams has pointed out, with a minimum wage of \$3.35, it would have to be raised to at least \$3.75 if we were to keep the same purchasing power for the worker that was provided with the minimum wage of 1967. So, this is something that I know we will have to review as well.

Mr. Chairman, there is one final point I wanted to make. This morning, we are going to hear some testimony that there has been no evidence that a subminimum would increase overall employment. We will hear today that even when employers have been offered a 100-percent wage subsidy to hire young people, only 18 percent have agreed to do so, and that a 50-percent subsidy produced a positive response from only 5 percent of the employers contacted.

These studies have been conducted under existing test programs held in different cities of this country where the full wage of that trainee—because they were coming from the background of dropping out of school and lacking in some of the other essential skills—they were being given those kinds of essential skills and were given some kind of training, and their full salary was paid for for 1 year. The placement level was 18 percent, and even when it was 50 percent, only 5 percent of the employers participated. The subminimum is a much smaller incentive.

So, I think we are entitled to hear from those studies as to exactly what we are getting ourselves in for in terms of employment possibilities. I reject any suggestion that by raising these questions, we lack any interest or deep concern about trying to offer some employment opportunities to the young people.

My own view is that we are either going to have to move the jobs to where the young people are and provide them with the basic and fundamental skills as well as the training skills, or move the kids

to where the jobs are. But we will find out more about that during the course of these hearings.

I thank the Chair.

Senator NICKLES. Thank you, Senator Kennedy.

Senator Hawkins?

Senator HAWKINS. Mr. Chairman, as recent hearings before the Subcommittee on Employment and Productivity demonstrated, this committee is committed to finding a solution to the growing problem of teenage unemployment. The overall problem of unemployment has caused much suffering, but the plight of our teenage unemployed is particularly severe. If we do not assist them now in developing the necessary skills, experience, and discipline to enter the work force, they will continue to unwillingly burden our society as it tries to recover its economic strength.

The minimum wage provisions of the Fair Labor Standards Act were designed, in part, to protect young workers. But I believe even Senator Randolph would agree that events and conditions have changed since its enactment in 1938. The same provisions which once protected teenage workers now freeze them out of the job market. The minimum wage has risen to \$3.35 an hour and has been expanded to include retail and service trades—traditionally, one of the largest employers of the young worker and a tremendously large employer in the State of Florida.

Although the Fair Labor Standards Act has been amended frequently since its enactment, it has never allowed a subminimum wage for all youth in all trades. The rising minimum wage has forced employers to leave jobs unfilled—jobs that could be performed by unskilled youth. But because of an unrealistically high minimum wage, many youths are not hired because employers feel they are not worth paying the minimum wage.

The teenage worker with no experience or industrial discipline is rightly perceived to be less productive and therefore less profitable to employers. Studies have shown that teenage unemployment has risen in tandem with the minimum wage. I understand that the general rule of thumb is that for each 10 percent increase in the minimum wage, there will be an accompanying 1 percent decrease in employment among teenagers.

The minimum wage provisions of the Fair Labor Standards Act are a classic example of legislation that has not kept pace with social, cultural, and economic changes in the United States.

The Federal Government enacted minimum wage provisions to protect the young worker, but because the legislation has not been amended to keep pace with changes in the workplace, the provisions of this act work to the teenager's disadvantage. Any time we place restraints on the free market system, we must carefully monitor those restraints to insure that they are not counterproductive.

This committee should carefully consider legislation providing for a youth differential. Congress has considered many different methods of dealing with youth unemployment, but I believe that the easing of Federal restraints on the free market system will have the most beneficial effect of all by providing jobs and job training in the private sector.

I look forward to studying the facts that will be provided and developed by this committee, and commend Senator Nickles, Senator Hatch, and Senator Percy for offering this legislation for us to consider. I would like to offer Liberty City in Miami, Fla., for a pilot program, if indeed you need an area to conduct an experiment for those that feel that we must study this problem to death. I would like to see a pilot program enacted as soon as possible and suggest that Liberty City in Miami, Fla., be its ground.

Thank you so much.

Senator NICKLES. Thank you, Senator Hawkins.

Ladies and gentlemen, today we have testimony from 12 or 13 people. Our first guest is Secretary Ray Donovan, Secretary of the Department of Labor.

You are accompanied by whom?

STATEMENT OF RAYMOND J. DONOVAN, SECRETARY OF LABOR, ACCOMPANIED BY CRAIG BERRINGTON, DEPUTY ASSISTANT SECRETARY, EMPLOYMENT STANDARDS ADMINISTRATION; AND DAVID A. WILLIAMS, ASSISTANT TO THE DEPUTY UNDER SECRETARY FOR LEGISLATION

Secretary DONOVAN. The gentleman on my far right is Mr. Williams, and Mr. Berrington is directly next to me.

Senator NICKLES. Mr. Berrington's title is Deputy Assistant Secretary for Employment Standards?

Secretary DONOVAN. That is correct, Senator.

Senator NICKLES. And Mr. Williams?

Secretary DONOVAN. He is with Governmental Relations under Don Shasteen.

Senator NICKLES. Very good.

Mr. Donovan, do you have a brief statement? I would advise all of our guests that we have requested that everybody presenting testimony to the committee hold their remarks to 10 minutes. We will enter all prepared statements into the record. So, if you could summarize your statements, that would certainly be appreciated by members of the committee.

Likewise, members of the committee, if we could hold our remarks or questions to 5 or 10 minutes, that would facilitate the number of witnesses that we have today.

Mr. Secretary?

Secretary DONOVAN. Mr. Chairman and members of the subcommittee, thank you for this opportunity to appear before you today. Your subcommittee is considering a very important issue—the failure of the American economy to provide jobs for so many of our young people who are ready and willing to work. This failure causes great social and economic burdens in our society. This burden falls most heavily on the poor who live in our large urban centers.

Minority youngsters are affected in greatly disproportionate numbers, often during a critical period of their lives when the experience of extended unemployment can have a long-term impact on their attitude toward work and society. This failure is an American tragedy that must be remedied.

As I responded to Senators Denton and Quayle in answer to their questions during my confirmation hearings, I would support a sub-

minimum wage for youth if it were shown that it would help to solve this grave problem. Since my confirmation as Secretary of Labor, I have become increasingly concerned about the extremely high levels of youth unemployment.

I support the concept of a youth subminimum wage. However, I do not believe that we presently have sufficient information to allow us to endorse a specific legislative proposal. We need to develop an approach as part of a broad-based youth employment strategy which is most beneficial to youth and, at the same time, deals effectively with such issues as adult displacement, enforcement, and job creation. We anticipate that the current studies will be helpful in providing us with this needed information.

Let me highlight for the subcommittee the magnitude and the nature of the teenage unemployment problem. The people we are talking about, Mr. Chairman, are young men and women in their late teens who are recent high school graduates, high school drop-outs, and disadvantaged in-school youth who need part-time or summer employment. They have limited education and little, if any, work experience.

Their unemployment rate has remained at an extremely high level for many years. In 1980, the unemployment rate for teenagers 16 to 19 years old was 17.7 percent. For white teenagers, it was 15.5 percent. For black and other minority teenagers, it was an astounding 35.8 percent. During the 1970's, the overall teenage unemployment rate ranged from 14.5 to 19.9 percent, while the rate for black and other minority youths ranged from 29 to 38 percent. These figures present the stark reality of the unemployment problems of our youth.

Based on the picture presented by these figures, it is obvious that the programs which were established in the past two decades to put youth to work have not solved the problem. We need to look for new approaches. First and foremost will be the enactment of the President's comprehensive program for economic recovery. In addition, as this subcommittee knows, I have committed the efforts of the Labor Department to help find answers to the youth unemployment problem. Finally, legislation has been introduced by a number of Members of Congress and is now pending before the committee on Labor and Human Resources on this subject.

I know that your subcommittee is considering the adoption of a special minimum wage as a means of putting teenagers to work. However, as I have previously indicated, there are a number of considerations that must be carefully examined before the administration can endorse a specific legislative approach.

We need to consider: one, the effect of various youth differentials on the jobs of adult wage earners; two, the most effective means of enforcement to preclude adult displacement and youth turnover; three, maximizing the additional employment opportunities available for inner city youth; four, the effect of various proposals on poor families who partially or completely rely on the wages of teenagers; five, the extent to which business and industry will be induced to create additional jobs; six, the experience of other industrialized countries that have special wages for youth.

The question of increasing employment opportunities has led to a number of studies relating to the impact of the minimum wage on

employment. Most studies that have been conducted in recent years address the effects of an increase in the minimum wage on employment generally and youth employment in particular.

The youth differential issue is currently being studied and specifically addressed by the Minimum Wage Study Commission, which was created by the Congress in the 1977 amendments to the Fair Labor Standards Act. The Commission has contracted for a number of studies in this area and will report its findings to the Congress in May. I will want to carefully review the Commission's studies in this area.

As you are aware, the present Fair Labor Standards Act provides for lower minimum wages for certain students and, in most cases, only in certain industries. The employment of certain vocational education student learners is permitted at 75 percent of the minimum wage. In fiscal year 1980, approximately 4,500 such students were employed under certificates issued by the Department.

The employment of full-time students is permitted at 85 percent of the minimum wage in retail, service, agriculture, or institutions of higher education under certificates issued by the Department. Approximately 29,500 certificates were issued to employers in fiscal year 1980 under which an estimated 495,000 full-time students were employed at special minimum wages. Approximately 6,000 of the certificates were issued to restaurants, including fast food establishments, and about 5,000 to retail variety and department stores.

As I have indicated above, I am greatly concerned about the disastrous levels of youth unemployment in our society. What is needed is a broad-based youth employment strategy that will result in employers across the country in all industries and businesses employing young workers who are starting their employment careers.

This concludes my remarks, Mr. Chairman. Thank you for asking me to appear today. I will be happy to answer any of your questions and so will my staff.

Senator NICKLES. Thank you, Mr. Donovan. I have a couple of questions, and I would compliment you and the administration on your efforts to rebound our economy because I think that is certainly the area where we are going to find more jobs created for all people, regardless of their age. I think the administration and yourself have taken some dramatic and very much needed steps in the right direction to accomplish that goal.

Do you think, Mr. Secretary, that there are a lot of people, specifically teenagers in the age bracket of 16 and 17 who are presently mandated to be covered by minimum wage law—that are being priced out of that job of the \$3.35 that is required today?

Secretary DONOVAN. I believe that is so, yes.

Senator NICKLES. Someone made a study and they said 380,000, but does the Department have any estimate of how many jobs we might create if we exempted, say, that particular group from the minimum wage?

Secretary DONOVAN. In the 16 to 17 age group?

Senator NICKLES. Yes.

Secretary DONOVAN. I do not know whether we have it that refined. That Study Commission whose report is due in May, has addressed that; we do not have the numbers.

Senator NICKLES. This study commission that is coming up, do we know how much that is costing the taxpayers?

Secretary DONOVAN. I do not.

Senator NICKLES. You have not had time; that is not a fair question. I also quoted another study commission; it was Hammermesh, done in 1974. I was wondering if we had paralysis by analysis by commissions from our government in trying to decide.

The crucial point is a fact that you mentioned in your testimony, that we have so many young people who are presently unemployed that are being priced out of the marketplace and are trying to get jobs.

You mentioned also in your statement that there were x number of people who had applied and received certificates from the Department of Labor concerning student employment, which would allow them to have the student differential of 75 or 85 percent of the minimum wage. That seems to be a very cumbersome procedure to save 25 cents and maybe employ more people. It seems very bureaucratic.

Is that opinion shared by the DOL?

Secretary DONOVAN. It is cumbersome, and that is one of our concerns in addressing the problem that your subcommittee is holding hearings on. We certainly do not want to have to put an addition on the Frances Perkins Building to house the people necessary to regulate this.

Senator NICKLES. Mr. Secretary, we have three legislative proposals before us today. One would exempt persons under 18 and others would give a percentage reduction for persons under 20. These are just three; I think all the members of the committee are certainly open to any alternative that we can propose that might open some doors to young people.

Do you possibly have any other alternatives in the back of your mind that might help unemployed young people?

Secretary DONOVAN. Well, you pointed it out, Senator. The youth unemployment rate follows in direct proportion to unemployment in general. If we do not solve the economic ills of this country—I am convinced that subminimum wages, although there is some evidence that it will help, is certainly not a cure-all for this, and I do not think you believe that either.

I just continue to stress that the basic economic package is the true answer. In our subcouncils at the Cabinet in the economic area, we have discussed several proposals. When we talked in my opening statement of a more comprehensive approach to this—and Senator Kennedy touched on it—we are talking about the enterprise zones, bringing industry to the hard-core unemployed.

As an example, Mayor Koch in his conversations with the President—and Senator Hawkins has indicated Liberty City—offered New York. There are cultural problems and there are structural problems there. Even with a subminimum in Harlem, I am not sure all the jobs are there to begin with. So, it is a very complicated and tragic issue and it must be addressed, as we indicated, in a more broad, more comprehensive approach, including possibly our

block grants under the youth programs that presently exist under CETA.

Senator NICKLES. Thank you. I have no further questions.

Senator Williams?

Senator WILLIAMS. Thank you, Mr. Chairman.

It appears to me that we will be back here with you before we make any decisions in this subcommittee on a subminimum provision for youth, in view of your strong statement that the studies must be considered, and they are due in May, and then there will have to be an opportunity to review those studies after that. So, I will be rather brief with my questioning at this time, Mr. Secretary.

Even though you accept the concept of a subminimum wage for youth, I applaud your sound and thoughtful approach here today. As I understand it you believe that there must be careful consideration by us before we make a decision. Is that accurate?

Secretary DONOVAN. Yes, because there is a feeling that unless we do something in a more comprehensive way, we will build up feelings of hope among people who have no hope. Certainly, we feel these studies, since they have been commissioned, could throw some light on what is a tough situation. I do not think there is anyone here who would disagree that it is.

I think there are many here who disagree that our economic package offers the only true hope, and I am here to stress that. But, yes, Senator Williams, we need more time to study it.

Senator WILLIAMS. All right. And you certainly have fully explored the various effects of a subminimum that should be considered with your six points on page 4 of your statement. I would like to highlight just one; in point 5 you say, "the extent to which business and industry will be induced to create additional jobs."

I think it was very dramatic, as Senator Kennedy pointed out, that even with a full subsidy to wages, there was a very limited business response. Now, in this area of the subminimum for youth, what businesses would be interested?

We will have testimony later today that convenience stores are interested in the subminimum for youth. Some parts of shopping center activity and grocery stores, I suppose, will be interested. I think there will be some testimony that service areas, hotels and motels, will be interested.

Now, everybody is particularly concerned about the exceptionally high level of unemployment among teenagers who are city-living minority youth. I just want to look at this briefly from a situation that you and I know so well. In one of our major cities, Newark, there is terribly high unemployment of young people.

When you look at those promising areas of business that a wage subminimum would have appeal to, those business areas do not exist in any degree in Newark. We know where the convenience stores are; they are way out there in the suburbs. So far as hotels and motels are concerned—there is no hotel remaining in Newark.

Secretary DONOVAN. That is correct.

Senator WILLIAMS. In our context, they are out Morristown way or Paramus way; you know that. I just want to impress the fact that if we put that subminimum in for that target group that we are most concerned about—teenagers and minorities in cities, this

would be a meaningless gesture toward these unemployment problems.

Of course, I do not accept the principle of a subminimum wage, but if we enact a subminimum wage, these groups of high unemployment are not going to be reached at all, or to any significant degree. Again, we come back to Senator Kennedy's description of the demonstration projects, where business did not even take the full subsidy for youth employment. These are the problems that we will have to consider.

But do you agree with me that it is a tough problem, if you are going to use this kind of incentive to business, to reach the ones that we are most concerned about—city-dwelling minority youth?

Secretary DONOVAN. I do agree, and that is why the comprehensive approach has to be taken if we are going to make a meaningful move in that area.

Senator WILLIAMS. On the other point that Senator Kennedy and I raised of just what inflation has done to the minimum wage itself and how it has lagged behind the inflation rate considerably, there is a bill here that would eliminate the minimum wage altogether for persons under age 18. What is your response to that kind of an approach on minimum wage?

Secretary DONOVAN. To eliminate it totally?

Senator WILLIAMS. Yes.

Secretary DONOVAN. I am against it.

Senator WILLIAMS. What is your opinion of making today's minimum wage more reflective of the worker's needs in terms of an adequate minimum wage for just a basic standard of living?

Secretary DONOVAN. If it were not for inflation, the increases in the minimum wage could be defended. I think inflation has eroded it, like it has eroded your income and mine, and there is the source of the problem—inflation. Again, I go back to the President's program, and it is designed to do just that. If we do not, this type of testimony and these types of questions will just continue.

Senator WILLIAMS. Thank you very much, Mr. Secretary.

Senator NICKLES. Thank you, Senator Williams.

Senator HATCH?

Senator HATCH. Mr. Secretary, economists, manpower specialists, and makers of public policy are frequently criticized for reinventing the wheel, so to speak. As we move into the 1980's, I think you would agree with me that we would like to avoid that sort of an approach.

Secretary DONOVAN. Yes.

Senator HATCH. For half a century now, since the Great Depression of the 1930's, there has been an intermittent concern within the public sector with providing work opportunities for young people. One would assume that through these 50 years, the Department of Labor has developed a considerable expertise in this area on these questions: what causes youth unemployment; what, if anything, can or ought to be done about it; whether or not it is really a problem, and if so, for whom; what programs have been tried; which ones have been successful and which ones have not, and why.

Hopefully, policymakers in the Department have a sense of history and draw individually and collectively from past successes and

failures when formulating current policy options. As you know, Mr. Secretary, there is an historical office within the Department of Labor. I understand that you are a new Secretary of Labor, so it is unlikely that you would know about all of these aspects of the Department of Labor at this point and you will have to get into them.

But if you do know, how are the services of that office, of Dr. Jonathan Grossman and his staff, utilized in the development of policy?

Secretary DONOVAN. As far as the historical causes for youth unemployment?

Senator HATCH. Yes.

Secretary DONOVAN. Craig, can you address that?

Mr. BERRINGTON. Well, Dr. Grossman's primary responsibility, as I understand it, is to be a chronicler of the Labor Department's history, and his book has been widely read by people interested in labor history and in labor issues in the Department as well as out.

Senator HATCH. Right. Over the years, as the Department has developed new programs and abandoned others, has there been any systematic effort at an historical evaluation of each of these efforts, and what is the current Department policy in this area?

Mr. BERRINGTON. There is continuing evaluation of various employment and training programs. A thorough one is being undertaken right now, with the effort to move the CETA program into emphasis in private sector employment and training.

Senator HATCH. There are all kinds of studies and all kinds of work in this area, is that right?

Mr. BERRINGTON. There are substantial studies over the years, sir.

Senator HATCH. For 50 years, the Federal Government has spent considerable sums and countless staff hours for a variety of youth employment programs, from the New Deal era Civilian Conservation Corps through the kaleidoscope of programs in the 1960's and 1970's.

Now, I think it would be useful for the committee broadly—at least for this Committee on Labor and Human Resources and to the several subcommittees—to have a careful analytical inventory of these programs.

Could the Department provide an inventory or a summary or an analysis, or all three, of the youth employment efforts of the Federal Government since the commencement of the Roosevelt administration?

Secretary DONOVAN. Yes, I presume we can.

Senator HATCH. What I have in mind is rather specific: a series of brief papers—we do not want volumes of work—which would include, among other things, the following: One, an historical sketch of the origins of the particular program, why it was instituted, the views of the Congress and the Department, how it evolved, and how it was finally terminated; two, a policy analysis of the program, its strengths, its weaknesses, how successful or unsuccessful it may have been, and I would think that an analysis of the programs that failed may be equally as important as the analysis of programs which have succeeded; No. 3, an economical, statistical review of each program, how many people were involved both in a

managerial or supervisory capacity and as program participants; was the program cost effective and, as nearly as one can determine, what was the economic employment impact of the program.

Now, I assume, Mr. Secretary, that the Department does not operate in an historical vacuum and that the data analysis to which I have been referring would be readily available to current policymakers. And in providing information to the Congress, the primary effort required would be one by us of synthesis, and by the Department in helping us.

I would suspect that the historical office at the Department, for example, could do this rather easily. Would you agree with that?

Mr. BERRINGTON. I believe we have that kind of information and the longitudinal studies at least going back 20 years. I am not sure, going back to the Roosevelt era, that there are similarly sophisticated studies that would be available.

Senator HATCH. Well, even over the last 20 years, that would be very helpful, because I noticed that in a recent study by Dr. Walter Williams, entitled "Government-Sanctioned Restraints That Reduce Economic Opportunities for Minorities"—and Mr. Williams is an expert on this, being not only an economist, but a minority person himself—I note that back in 1954, just 27 years ago, the ratio of black males, 16 and 17 years old, to white was almost 1 to 1. In 1955, it was 1 to 1. In ages 18 to 19, it was 1.1 to 1; in other words, there were more blacks employed than whites at that time, according to this study. In 1955, it was 1 to 1.

In 1976, there were 0.57 to every 100, as I understand it, blacks to whites. In other words, we have almost cut black employment in half. So, I would say that the 20-year period would be very helpful to us in this regard, if these statistics are correct.

Senator WILLIAMS. Would the Senator yield?

Senator HATCH. Yes.

Senator WILLIAMS. You know, some 50-year-old history is being relived this year; this is the 50th anniversary of the Civilian Conservation Corps, the CCC. I think you mentioned that as part of the history of the response to the need of youth for employment opportunities.

I know that these are happening all over the country; I have been invited to a couple of them. Not that I was a member of the CCC, but I have always felt that this was one of our most effective programs, and it was really the first national response. The Secretary will remember John Grogan, mayor of Hoboken.

Secretary DONOVAN. That is right, yes.

Senator WILLIAMS. He used to give me testimony everytime I met him about the meaning of CCC to him and his life; it made him, he said. I hear that wherever I go; you meet these people who were successful graduates of this program.

Senator HATCH. Are you suggesting that we have the Civilian Conservation Corps now?

Senator WILLIAMS. Let us listen to them. At our next hearing, whenever it comes, May or June, when we are considering this legislation further, Mr. Chairman, let us have a couple of graduates of the CCC in here. They would provide us with good history, living history of a successful approach to youth employment.

Senator HATCH. Thank you, Senator Williams; that is a good suggestion.

There have been reports by national commissions, blue ribbon panels, and various assorted task forces. The Department has funded an impressive array of scholarly studies in the manpower field and has worked closely with manpower and employment training institutes associated with universities and State and local government units.

There have been extended statistical projects which have been largely publicly funded. These various projects have not been inexpensive.

Maybe I could ask your aide, Mr. Secretary, what has become of 50 years of scholarly and professional research dealing with youth and adult employment and unemployment? Is there not a vast array of knowledge materials, statistics and scholarly papers of all kinds of commissions, and so forth, on this problem that needs to be solved?

Secretary DONOVAN. I am sure there are, Senator, but the demographics have changed, with movement from farms into cities and the structurally unemployed in the inner cities. I am sure it would throw some light on the situation, but the further back we go on some of those studies, I would presume, the less education we would get from them.

Senator HATCH. Well, Mr. Secretary, in 1970 the Bureau of Labor Statistics released a collection of essays entitled "Youth Unemployment and Minimum Wages"; that is bulletin number 1657. Both before that time and since, there have been many contract studies performed for the Department specifically on the subject of minimum wages and their impact.

Now, in preparing the inventory that you have just indicated you will be happy to provide this committee on this very important problem, would you have your staff take special note of such minimum wage-related studies, including that bulletin and all of these other commissions, and so forth?

Secretary DONOVAN. Yes, we will.

Senator HATCH. All right. We would like an inventory of youth employment and unemployment-related studies conducted by or for the Department since the commencement of the New Deal. Could we have that provided to the committee? I think you will find, Mr. Secretary, that it is a rather long list.

Secretary DONOVAN. Yes, we will, Senator.

Senator HATCH. Thank you. Would you include in that inventory a brief summary of not more than a page—we do not want to overburden you—of the focus, content, and general conclusions of each of these studies, together with an indication of by whom the study was made? Can you do that for us?

Secretary DONOVAN. Yes.

Senator HATCH. Normally, an executive summary is provided of each contract study, so this ought to be more a question of compilation than of original analysis.

Now, one rationale for a subminimum wage or a youth differential is that it will allow employers to take a chance on less skilled and less disciplined workers to be compensated in part for the

employee's lack of skill, lack of discipline, presumed lower productivity, absenteeism, et cetera.

Now, what percentage of the work force currently is made up of minimum wage workers? Does anybody have that at hand?

Mr. BERRINGTON. I do not have that data with me; we can provide that.

Senator HATCH. You will provide that for us?

Mr. BERRINGTON. Yes. Of the nonsupervisory employees subject to the subminimum wage, 5,555,000 are paid \$3.35 an hour or less.

Senator HATCH. What percentage of the work force currently is made up of workers not yet 19 years of age?

Mr. BERRINGTON. Approximately 8.4 million wage and salary workers under 20 years of age, constituting 9.4 percent of all wage and salary workers. This includes the 1.9 million 14-19-year-olds who are in the labor force but are unemployed.

Senator HATCH. Keep in mind that we are talking about minimum wage workers and minimum wage work, and we are not comparing the unskilled entry level worker with the technician or skilled craftsman.

I would like you to compare the worker who is under 19 with the minimum wage worker who is over 19. Could we have those figures?

Mr. BERRINGTON. Yes, we can do that.

Senator HATCH. I think that would be important. I would like you to contrast, to the extent you can with the materials you have and the studies that have been done, their work attitudes, their ability to perform minimum wage work, and other ways under-19 minimum wage workers differ from over-19 minimum wage workers. According to some of the studies I see, there are some very interesting differences. Would you do that for us?

Mr. BERRINGTON. We can. However, the judgmental aspects of that question are more difficult for us to provide than the pure data.

[The following was supplied for the record:]

Fifth Annual Report
to the President and the Congress of the
National Commission for Employment Policy

Expanding Employment Opportunities for Disadvantaged Youth

Report No. 9

National Commission for Employment Policy
Suite 300, 1522 K Street, N.W.
Washington, D.C. 20005
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Chapter 2: The Nature of the Problem

High unemployment among the nation's youth has become a relatively permanent feature of the labor market. Over the past decade (1968-1978), unemployment rates for persons 16 to 24 years of age have averaged 12 percent, triple the 4 percent average for older workers, aged 25-54 (see Figure 2-1). Among youth who are members of minority groups, unemployment rates have been still higher, averaging 22 percent among nonwhites and 17 percent among Hispanics (data for the latter group cover the last five years only). In addition, the nonwhite unemployment rate has shown a strong upward trend over the decade, with the result that there has been a widening gap between the unemployment rates of nonwhite and white youth.

Although unemployment has been high among young labor force participants, the proportion of the youth population which is employed has been gradually rising. However, this upward movement has been due to the increasing propensity of white youth to seek and find work; the proportion of the nonwhite population which is employed has fallen sharply.

This brief review of the data suggests that there are three questions which need to be answered:

- (1) Why is youth unemployment higher than adult unemployment?
- (2) Why are minority youth unemployment rates so much higher, and their employment rates so much lower, than those of other youth?
- (3) Why have gaps between the experiences of minority and other youth widened over time?

This chapter examines what is known about youth labor markets and, in the process, attempts to shed some light on these three questions. The first section describes the dimensions of the problem in greater detail. The second section examines its causes.

A. The Dimensions of the Problem

1. Indicators of Success and Failure

Many have argued that unemployment rates understate the extent of youth's labor market problems because these statistics do not reflect the substantial proportion of youth who have become discouraged and dropped out of the labor force entirely.¹ Others have argued that the conventional employment and unemployment statistics exaggerate their problems.² They point out that by including many youth whose primary activity is attending school and who are only interested in part-time work, the conventional statistics are misleading.³ Furthermore, many young people are unemployed because they are in the process of exploring the market as they move from school to work or from one job to another before settling down into a more permanent position.⁴ It is often observed that much youth unemployment is relatively short term and thus may not create substantial economic hardship. On the other hand, recent studies suggest that a rather high proportion of all youth unemployment is due to a relatively small number of young people who experience lengthy spells of unemployment.⁵

¹Persons who are not actively seeking work because they believe they cannot get a job because no jobs are available or because they feel some personal factor would preclude their finding work are considered "discouraged workers," rather than unemployed. In 1978, 250,000 of the 850,00 discouraged workers estimated in the Current Population Survey were between the ages of 16 and 24. If they had been counted as unemployed, the youth unemployment rate would have been increased from 12.2 percent to 13.1 percent.

²For example, see Michael Wachter, "The Dimensions and Complexities of the Youth Unemployment Problem," in *Youth Employment and Public Policy* edited by Bernard Anderson and Isabel Sawhill (New York: Prentice-Hall, 1980).

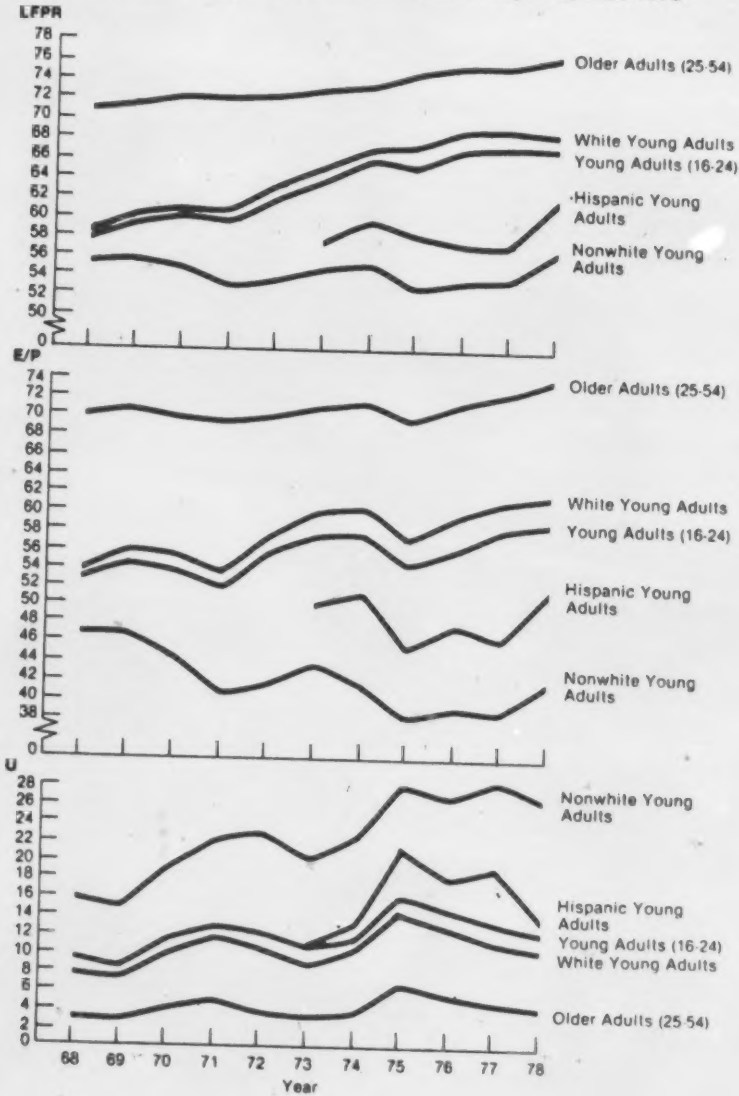
³In 1978, 68 percent of the labor force participants ages 16-17 were voluntarily employed part-time (less than 35 hours per week) or seeking part-time work; 29 percent of the participants ages 18-19 were part-time; and 13 percent of the participants ages 20-24 were part-time. Within each age group, the unemployment rates of the part-time and full-time labor force were similar.

⁴In 1978, 71 percent of the unemployed teenagers were new entrants or reentrants into the labor force; 10 percent had quit their last job; and 19 percent had lost their last job. Among unemployed adults, only 35 percent were (re)entrants; 15 percent had quit; and 49 percent had lost their last job.

⁵For example, it was estimated that in 1974, 54 percent of the weeks of unemployment among out-of-school young men were experienced by youth unemployed for more

Figure 2-1

Labor Force Participation Rates (LFPR); Employment to Population Rates (E/P); and Unemployment Rates (U) for Older Adults and Young Adults, Total, White, Nonwhite, and Hispanic, 1968-1978



Each of these criticisms of the statistics has some merit.⁶ Clearly, some unemployment is endemic to the school-to-work transition, but is unlikely to be of serious consequence. On the other hand, some unemployed youth do become discouraged and leave the labor force and some have real difficulty finding work and remain unemployed for long periods of time. Thus, on an individual level, some young people make the transition to the stable work patterns of adulthood quite successfully, while others encounter problems. Moreover, these problems may impede success in later years. These longer-term consequences are discussed in Chapter 3.

It is useful to attempt to identify those groups for whom the transition years are problematic. The evidence presented below suggests that women, minorities, high school dropouts and youth from low-income families are among the groups that are most likely to have problems with the transition from school to work. We compare their experiences to those of all young men in the post high school years. Of course, this is a very aggregate comparison. Within each subgroup there are individuals whose experiences may be considered successful, and others for whom the transition years are unsuccessful. Moreover, some youth may face multiple difficulties as they enter the labor market.

When evaluating the labor market problems of these groups, we go beyond a simple inspection of unemployment rates. We also considered the extent and stability of employment as well as young people's involvement in competing activities, such as schooling and the military. Youth, more than adults, are likely to be engaged in one of these activities, and focusing on labor force experiences alone would be misleading. Moreover, these experiences outside of the

than six months. This group constituted only 8 percent of the labor force of the age group. (Kim Clark and Lawrence Summers, "The Dynamics of Youth Unemployment," paper presented to the National Bureau of Economic Research Conference on Youth Unemployment, Airlie, Virginia, May 1979.)

⁶An additional possible problem with the statistics relates to the way in which the data are collected. In the Current Population Survey, the parents (typically the mother) are asked about the child's labor force activities; the child is not asked directly. A comparison of results from the CPS with those from the National Longitudinal Surveys (in which youth report their own activities) indicates that the extent to which young men are working and young women are looking for work, may be underestimated in the CPS. See Michael Borus et al., "Counting Youth: A Comparison of Youth Labor Force Statistics in the Current Population Survey and the National Longitudinal Surveys," in U.S. Department of Labor, *Conference Report on Youth Unemployment: Its Measurement and Meaning* (Washington, D.C.: U.S. Department of Labor, 1978); also Richard Freeman and James Medoff, "Why Does the Youth Labor Force Activity Differ Across Surveys?" paper presented to the National Bureau of Economic Research Conference on Youth Unemployment, Airlie, Virginia, May 1979.

labor market may be important because of their influence over the future course of young people's lives. For example, there is evidence that additional years of schooling contribute to, while teenage pregnancy impedes, success in later years.

Finally, we examine the labor market experiences of youth both at a point in time and over time. This is important since young people differ not only in their initial positions in the labor market, but also in the paths they begin to follow as they gain experience. At the beginning of their careers, variations between groups may appear largely in the form of unemployment rates and other measures of employment stability; fewer differences may be found in the wages they earn in their entry-level jobs. However, over time variations along all of these labor market dimensions may emerge; some may move quickly into the more stable, higher-paying jobs associated with adult work roles while others may have difficulty locating such work. For these reasons, we also examine such measures of labor market success as earnings growth and occupational upgrading.

2. The Labor Market Experiences of Youth: Mainstream Patterns

The years between ages 16 and 24 are often termed the "transition period." Schooling is replaced with job search and full-time employment; parents cease to be a primary source of income as "own households" begin to be formed. And, within the labor force, young people move from their first entry-level jobs to more permanent positions which will be held for several years, or possibly a lifetime.

For most youth, this transition period is successful. By age 22-24, 85 percent of all young people have graduated from high school and of these, 20 percent have completed college. This latter group of college-educated youth, by having spent added years on education, has formed a solid base for the start of adult life.

Among those who do not attend college, virtually all young men are employed some part of their first year after leaving school as well as some part of the ensuing years (Tables 2-1 through 2-3). More important for them is the increasing stability of that employment. Between the ages of 18 and 19, they average about 40 weeks of work per year and their unemployment rate is above that of the nation as a whole. However, by age 22-24, they are averaging almost full-year employment (46 weeks) and their unemployment rate is below that of the nation.⁷

⁷In October 1978 the unemployment rate for 18-19 year old male high school graduates was 8.8 percent; for 22-24 year olds, it was 5.6 percent. At the same time, the

Table 2-1
Experiences of Male and Female Youth

Experience Indicator	Men			Women		
	16-17	18-19	22-24	16-17	18-19	22-24
	All Educational Categories					
Unemployed as a Percent of the Labor Force, 1978 ^a	19.0	12.3	6.7	17.2	14.7	8.0
Employed as Percent of the Civilian, Noninstitutional Population, 1978 ^a	39.9	62.4	83.7	37.3	51.5	65.9
Employed, Enrolled or in the Military as Percent of the Population, 1978 ^a	93.6	90.0	90.3	93.1	77.2	70.8
Percent of Those Aged X in 1977 Who Had Completed High School ^c	4.4	69.1	84.4	7.0	76.6	84.2
Percent of the Civilian, Noninstitutional Population Enrolled in College ^a	—	35.2	19.2	—	36.2	13.2
	Noncollege Youth					
Average Weeks Worked Per Year of Those 16-17 in 1966 (1968 for Women) and As They Age ^{b d}	25-26			25-26		
	28.6	39.6	45.6	21.8	28.3	38.1
Hourly Rate of Pay (in 1978 Constant Dollars) of Those Who Were 16-17 in 1966 (1968 for Women) and As They Age ^b	2.87	4.33	6.31	2.09	3.04	3.84
Percent Increase in Average Hourly Rate of Pay from 18-19 to 25-26 ^b	45.9			26.4		

^a SOURCE: Current Population Survey, October 1978.

^b SOURCE: National Longitudinal Surveys, unpublished data (all NLS unpublished data shown in this chapter were provided with the assistance of Tura Eisele under a NCEP research contract to Stanley Stephenson).

^c SOURCE: Current Population Survey Series P-20 No. 333, February 1979.

^d Base is all those who worked one or more weeks during that year..

In these first years after leaving high school, some upward movement in occupational status begins. Most young men start their careers by working as unskilled laborers or operatives, or by entering the military. But by their early twenties, many have already moved

national unemployment rate was 6.7 percent. See U.S. Department of Labor, Bureau of Labor Statistics, "Students, Graduates and Dropouts in the Labor Market, 1978," Special Report No. 215 (Washington, D.C.: U.S. Department of Labor, forthcoming).

Table 2-2
Experiences of Minority Youth by Sex

Experience Indicator	MEN									WOMEN								
	Whites			Blacks			Hispanics			Whites			Blacks			Hispanics		
	16-17	18-19	22-24	16-17	18-19	22-24	16-17	18-19	22-24	16-17	18-19	22-24	16-17	18-19	22-24	16-17	18-19	22-24
	All Educational Categories																	
Average Annual Unemployment Rate, 1978 ^a	16.9	10.8	7.6	40.0	30.8	20.0	27.2	11.8	9.3	17.1	12.4	8.3	41.7	36.5	21.3	30.3	16.6	13.1
							16-19 ^f		20-24 ^f							16-19 ^f		20-24 ^f
Employed as a Percentage of the Civilian, Noninstitutional Population, 1978 ^b	43.9	66.2	85.5	16.3	40.6	71.4	46.1		81.6	41.6	55.5	67.9	13.7	28.5	52.1	34.7		50.8
Employed, Enrolled, or in the Military as a Percent of the Population ^b	93.8	91.7	91.9	92.1	79.2	79.0	N/A	N/A	N/A	93.5	79.6	72.4	90.8	62.5	60.0	N/A	N/A	N/A
Percent of Those Aged X in 1977 Who Had Completed High School ^d	4.4	72.8	85.0	3.7	43.8	77.5	3.0	45.8	71.4	7.2	78.6	86.1	5.8	64.4	71.9	4.8	54.9	52.4
Percent of Civilian, Noninstitutional Population Enrolled in College ^b	—	37.5	18.9	—	18.1	17.8	—	22.5	13.6	—	36.8	13.0	—	31.1	11.9	—	5.2	5.7

Table 2-2, continued
Experiences of Minority Youth by Sex

Experience Indicator	MEN									WOMEN								
	Whites			Blacks			Hispanics			Whites			Blacks			Hispanics		
	16-17	18-19	22-24	16-17	18-19	22-24	16-17	18-19	22-24	16-17	18-19	22-24	16-17	18-19	22-24	16-17	18-19	22-24
Noncollege Youth																		
Average Weeks Worked Per Year of Those 16-17 in 1966 (1968 for Women) and As They Age ^a	29.9	41.9	25-26 47.0	25.3	34.3	25-26 42.8	N/A	N/A	N/A	23.9	30.0	25-26 37.3	18.1	24.8	25-26 39.4	N/A	N/A	N/A
Hourly Rate of Pay (1978 Constant Dollars) of Those Who Were 16 to 17 in 1966 (1968 for Women) and As They Age ^c	2.97	4.60	25-26 6.98	2.57	3.73	25-26 4.79	N/A	N/A	N/A	2.07	3.04	25-26 4.01	2.11	3.06	25-26 3.54	N/A	N/A	N/A
Percent Increase in Average Hourly Rate of Pay From 18-19 to 25-26 ^c	51.8			28.2			N/A			31.9			15.9			N/A		

^a SOURCE: U.S. Bureau of Labor Statistics, *Employment and Earnings*, Vol. 26, No. 1, January 1979.

^b SOURCE: Current Population Survey, October 1978.

^c SOURCE: National Longitudinal Surveys, unpublished data.

^d SOURCE: U.S. Bureau of Census, "School Enrollment—Social and Economic Characteristics of Students," Series P-20, No. 333, February 1979.

^e Base is all those who worked one or more weeks.

^f SOURCE: *Monthly Labor Review*, December 1978.

N/A — Not available

Table 2-3
Experiences of High School Dropouts and Graduates by Sex

Experience Indicator	MEN						WOMEN					
	High School Graduate No College			Nongraduate Not Enrolled			High School Graduate No College			Nongraduate Not Enrolled		
	16-17	18-19	22-24	16-17	18-19	22-24	16-17	18-19	22-24	16-17	18-19	22-24
Unemployed as a Percent of the Labor Force, 1978 ^a	N/A	8.8	5.6	34.5	17.0	12.4	13.2	13.9	7.0	32.4	23.4	19.7
Unemployed as a Percent of the Civilian, Noninstitutional Population 1978 ^a	74.0	85.9	91.4	45.4	73.1	79.6	74.5	68.9	72.3	34.2	38.4	36.8
Average Weeks Worked Per Year of Those 16-17 in 1966 (1968 for Women) and As They Age ^{b,c}	41.9	39.2	25-26 46.9	34.3	40.4	25-26 43.2	22.9	30.3	25-26 40.9	18.6	22.4	25-26 29.8
Hourly Rate of Pay (in 1978 Dollars) of Those Who Were 16-17 in 1966 (1968 for Women) and As They Age ^b	2.87	4.45	25-26 6.84	2.87	4.09	25-26 5.21	2.07	3.16	25-26 4.07	2.09	2.65	25-26 3.19
Percent Increase in Average Hourly Rate of Pay from 18-19 to 25-26 ^b		53.6			27.3			28.7		19.8		

^a SOURCE: Current Population Survey, October 1978

^b SOURCE: National Longitudinal Surveys, unpublished data

^c Base is all those who worked one or more weeks during the year

N/A — Not available

into professional or managerial occupations or into the skilled crafts.⁸

Finally, as a result of both the progression of occupational status and the gains which accrue from work experience, the real (inflation-adjusted) earnings of young men who do not go on to college rise by about 46 percent in their first seven years after leaving school.

3. The Labor Market Experiences of Youth: Other Patterns

Women

The problems that women encounter during the transition years begin appearing in the statistics at around age 18. (See Tables 2-1—2-3.) Before that age, they are just as likely as men to be enrolled in school or employed. Also, women are much more likely than men to be high school graduates by the age of 18 or 19 although men catch up to them in educational attainment at a later age.

Within the labor force, women have somewhat more difficulty finding work than men. Both at ages 18-19 as well as at ages 22-24 the proportion of unemployed women is greater than that of men within each race (or ethnic) group and among high school graduates and nongraduates alike.

But the greatest problem women experience is with the wages they earn. In particular, noncollege women begin their work career receiving hourly wages that are about 75 percent that of men and over time this wage gap grows; when they are 25-26 these women are earning only 61 percent as much as men.

Part of the wage differential may reflect women's relative lack of experience. After leaving high school women work fewer weeks per year than men. Further, the proportion of women who are employed declines over the transition years due mainly to their increasing family responsibilities. But another part of the wage differential is due to the differing occupational distributions of men and women. Women begin their work careers in a different set of occupations than men and as they age, men experience greater occupational upgrading than women.⁹

⁸About 50 percent of the noncollege young men begin their work careers as operatives and unskilled laborers, but a little over 15 percent are already employed as craftsmen. By their mid-twenties, the proportion working as operatives and unskilled labor has declined, to 42 percent; the proportion working as craftsmen has doubled, and 7 percent are in professional and managerial jobs. (National Longitudinal Surveys unpublished data which exclude college youth.)

⁹In contrast to the occupational distribution of men at age 18-19 over 80 percent of all noncollege women are in clerical, service or operative occupations. By their mid-

Minorities

The labor market problems of today's youth are particularly severe among members of minority groups. The problems they experience are evident in all of the labor market indicators shown in Table 2-2.

At age 16-17 comparable proportions of white and minority youth are either employed, enrolled or in the military. However, at ages 18-24, minority young people are less likely to be involved in one or more of these activities. In particular, the schooling measures indicate that proportionately more whites than blacks or Hispanics complete high school and enroll in college, with Hispanics being the least likely to graduate from high school.

Once in the labor force, minority youth have a serious problem finding jobs. The unemployment rate of black males is at least two and one half times larger than that of white males of the same age. The unemployment rate for Hispanic males is also significantly higher than that of white males, but is less than that of their black counterparts. Among women too, the unemployment rate for Hispanics is much larger than for whites, but less than that of blacks. For both sexes, differences in the employment to population ratios by race or ethnicity tell the same story as the unemployment rates.

Among the noncollege youth who do work, at each age blacks average fewer weeks of employment per year than whites. They also earn lower wages at every age (although the disparity is not very significant among teenage women) and the growth in earnings between the ages of 18-19 and 25-26 is twice as large for whites as it is for blacks.¹⁰

While minority youth today clearly have a disadvantaged position relative to whites, along some dimensions the situation is better than it was a decade ago. First, the wage gap between blacks and whites is

twenties, women have experienced little upgrading: while 8 percent are in professional and managerial ranks, at age 25 or 26, 80 percent are still employed as operatives, clerical or service workers. (National Longitudinal Surveys unpublished data which exclude college youth.)

¹⁰Econometric research which adjusts for other differences between the two groups has found an insignificant difference in the hourly wages of 18-19 year-old black and white men. At the same time, an annual earnings differential exists, reflecting the greater employment instability of black men. Among 20-24 year-old men, blacks were found to earn significantly less than whites on both an hourly and an annual basis. Richard Freeman, "Economic Determinants of Geographic and Individual Variation in the Labor Market Position of Young Persons," paper presented to the National Bureau of Economic Research Conference on Youth Unemployment, Anhe, Virginia, May 1979.

The reason black youth receive a smaller wage increase over these initial years in the labor market appears to be due not only to their less frequent, but also to their slower movement out of low-wage, low-skill jobs. For example, at age 18-19 about 20 percent

much reduced, at least among those at the beginning of their careers. As important, there has been a significant increase in the proportion of blacks who are completing high school as well as attending college.¹¹

High School Dropouts

Along most of the dimensions reported in Table 2-3, school dropouts fare worse in the labor market than graduates. At every age (and for both sexes) nongraduates have unemployment rates from two to three times those of graduates. Also, dropouts are much less likely to be employed than are graduates, although the differences between graduates and dropouts in average weeks worked per year are not as large as the unemployment rate differential.

Among those who work, the wages of graduates and dropouts differ little at age 18-19; for example, male dropouts earn 90 percent as much as male graduates. However, the percentage increase in hourly rates of pay is considerably larger for high school graduates than dropouts. By the end of the transition years, there is a substantial wage gap between the two educational groups.

Youth from Low Income Families

Finally, Table 2-4 provides data on noncollege youth who come from economically-disadvantaged families.¹² These figures indicate that

of white men, but 40 percent of black men, are working as unskilled laborers. By the time youth are in their early twenties, this figure has already been halved for whites, but among blacks little change has occurred. It takes black men until their mid-twenties for significant upgrading to appear. By that age, the proportion of black men employed as unskilled laborers has fallen to 20 percent, the proportion found among whites at age 18. (National Longitudinal Surveys unpublished data which exclude college youth.)

¹¹In 1967, 56 percent of black 18-24 year olds completed high school and 23 percent of them attended college. A decade later, in 1977, two-thirds of them went on to college. While the proportion of whites who complete high school is greater than that of blacks, among those who do graduate, equal proportions subsequently enroll in college. The increasing enrollment rates of black youth seem to be one of the reasons for their declining employment to population ratios (see Figure 2-1), since black youth tend not to attend school and work simultaneously. If black youth were not attending school at their current levels, their employment-to-population rates would be considerably higher than they are at present, although still below those of whites. See Paul Osterman, "The Employment Problems of Black Youth: A Review of Evidence and Some Policy Suggestions," paper prepared for the National Commission for Employment Policy, July 1979.

¹²The relative paucity of information on this group is due to the fact that official (Current Population Surveys) data on income are collected for households and not, as is important here, for parents of youth. Since over 90 percent of the 16-17 year olds live with their parents, for this age group household income is a reasonable proxy for parental economic status. However, the proportion of youth living with their parents declines substantially with age, making household income a less reliable family-background indicator for the older age groups. The data from the National Longitudinal Surveys in Table 2-5 use parents' income.

Table 2-4
Experiences of Noncollege Youth From Economically Disadvantaged and Nondisadvantaged Families by Sex

Experience Indicator	MEN									WOMEN								
	All			Nondisadvantaged Family			Disadvantaged Family			All			Nondisadvantaged Family			Disadvantaged Family		
	16-17	18-19	25-26	16-17	18-19	25-26	16-17	18-19	25-26	16-17	18-19	25-26	16-17	18-19	25-26	16-17	18-19	25-26
Unemployment Rate, March 1978 ^a	22.4	N/A	N/A	18.5	N/A	N/A	35.5	N/A	N/A	25.6	N/A	N/A	17.8	N/A	N/A	29.9	N/A	N/A
Employed as a Percentage of the Civilian, Noninstitutional Population, March 1978 ^a	35.6	N/A	N/A	40.0	N/A	N/A	24.5	N/A	N/A	30.4	N/A	N/A	35.4	N/A	N/A	18.9	N/A	N/A
Average Weeks Worked Per Year of Those 16-17 in 1966 (1968 for Women) and As They Age ^{b c}	28.6	39.6	45.6	29.7	41.8	46.7	26.6	36.4	44.6	21.8	28.3	38.1	24.8	31.3	38.1	17.7	24.3	38.4
Hourly Rate of Pay (in 1978 Dollars) of Those Who Were 16-17 in 1966 (1968 for Women) and As They Age ^b	2.86	4.33	6.31	2.95	4.92	7.13	2.55	3.52	4.79	2.09	3.04	3.84	2.13	3.16	4.07	1.91	2.91	3.50
Percent Increase in Average Hourly Rate of Pay from 18-19 to 25-26 ^c	45.9			45.1			35.9			26.4			28.7			20.3		

^a SOURCE: Current Population Survey, March 1978. The income cutoff used to define a family's economic status is 100 percent of the BLS Lower Living Standard.

^b SOURCE: National Longitudinal Surveys, unpublished data. The income cutoff used to define a family's economic status approximates the BLS Lower Living Standard for a family of four.

^c Base is all those who worked one week or more during that year.

N/A - Not available.

even at age 16 to 17, there are substantial differences in the employment experiences of low-income, and higher-income, youth. For both men and women, the unemployment rate of the disadvantaged is almost twice that of their more advantaged counterparts and low-income youth are also less likely to be employed in these early years.

As important, these young people begin their work lives earning less than nonpoor youth and they fall further behind as they age. Among men, in particular, coming from an economically-disadvantaged family seems to be associated with even greater wage problems than leaving school early.

4. Summary

The fact that women, minorities, high school dropouts, and youth from low-income families have various labor market handicaps should be no surprise. It must also be remembered that these are overlapping categories and that youth who belong to more than one of these groups experience particularly serious problems.

If there is any one indicator which might be used to judge the relative seriousness of the problem for various groups of young men, it might be annual earnings at age 25-26. This indicator tells us who concludes the transition years reasonably successfully and who concludes these years with a deficit, either because of low rates of pay or unstable employment. Table 2-5 shows that, among the various subgroups of men, blacks and those from low-income families have the lowest hourly rates of pay, with high school dropouts not faring much better. Blacks have the lowest annual earnings because they work fewer weeks per year.

Estimated annual earnings is a less satisfactory indicator for young women, since they may voluntarily withdraw from the labor force or work fewer hours because of family responsibilities. For them, hourly rates of pay are better measures for assessing their transition years' experience. These data (in Table 2-5) show that even the most advantaged subgroup of women, white females, averages an hourly rate of pay below that of the most disadvantaged male subgroups (blacks and those from low-income families).

Table 2-5
Estimated Annual Earnings at Age 25-26 of Noncollege
Male and Female Youth From Different Subgroups

Group	Hourly Rate of Pay	Average Weeks Worked ^a	Estimated Annual Earnings ^b
All Men, aged 25-26	\$ 6.31	45.6	\$11,509
White	6.98	47.0	13,122
Black	4.79	42.8	8,200
Hispanic	N/A	N/A	N/A
High School Dropouts	5.21	43.2	9,002
From a Low-Income Family	4.79	44.6	8,545
All Women, aged 25-26	3.84	38.1	5,852
White	4.01	37.3	5,983
Black	3.54	39.4	5,579
Hispanic	N/A	N/A	N/A
High School Dropouts	3.19	29.8	3,802
From a Low-Income Family	3.50	38.4	5,376

^a Base is all those who worked at all during that year.

^b Estimated annual earnings = hourly rate of pay x 40 x average weeks worked per year. The assumption that all subgroups work 40 hours a week is made for calculation. Clearly, this is not the case and this assumption overlooks additional differences between these subgroups. All figures are stated in terms of constant (1978) dollars.

N/A — Not available

SOURCE: National Longitudinal Surveys of Young Men and Women, unpublished data. The data for young men are from the 1975 survey and for women from the 1977 survey.

B. The Causes of the Problem

1. Overview

This section provides a capsule review of the reasons why some youth are especially likely to have problems in the labor market.¹³ The particular focus is on unemployment although, where possible, the

¹³An earlier Commission briefing paper by Carol Jusenius (1978) provides an extensive survey of the literature on the causes of youth unemployment. Subsequent papers and interim reports to the Commission by Elijah Anderson, Ronald Ehrenberg, Richard Freeman, Robert Mare and Christopher Winship, Paul Osterman, and Michael Wachter were also particularly useful. The Anderson, Freeman, Wachter

other labor market problems described in the preceding section are also considered. As noted at the beginning of this chapter, in discussing unemployment there are three basic patterns that need to be accounted for: first, there is the high rate of youth joblessness relative to that of older workers; second, among youth, one must consider the higher rate of joblessness experienced by minorities; finally, there is the question of why the gap between black and white youth joblessness appears to have widened in recent years.

To anticipate the policy analysis that begins in Chapter 4, the factors likely to lead to unemployment are organized into three categories: (1) those that are associated with a lack of jobs, (2) those that affect the employability of youth, and (3) those that involve problems in matching young job-seekers with existing job vacancies. At the outset, it should be pointed out that these problems interact, complicating the analysis and the development of appropriate policies.

2. Lack of Jobs

Introduction

A lack of jobs for youth may be due to: (1) inadequate total demand, (2) discrimination, or (3) various structural imbalances, such as a decrease in the kinds of jobs typically open to youth relative to the size of the youth labor force. Each of these factors may contribute to youth joblessness, low wages, or both. One can envision employers ranking job candidates in order of attractiveness. The total number of jobs determines how far down in the queue they go. Of course, how youth come to be disproportionately at the end of the queue involves their own characteristics,¹⁴ as well as employer behavior. One way that a young person could make himself or herself more attractive to potential employers is to offer to work for lower wages. However, legal and social floors on wage rates, as well as youth's own preferences, limit the use of lower wages as a market clearing device.¹⁵

Inadequate Total Demand

In one sense, an insufficient number of jobs can always be given as a cause of youth unemployment: as long as job opportunities can be

papers were prepared as background for the Commission and American Assembly cosponsored Assembly on Youth Employment, in August 1979. They will be published in *Youth Employment and Public Policy* edited by Bernard Anderson and Isabel Sawhill.

¹⁴These characteristics will be discussed in the section that follows.

¹⁵The role of minimum wage legislation is addressed in Chapter 5.

expanded, youth employment will increase and youth unemployment will decline. For example, during the four-year period following the last recession (1975II-1979II), when the aggregate unemployment rate declined by 3.2 percentage points, that of teenagers fell by 4.2 points. The role of macroeconomic policy as a means of increasing youth employment and reducing youth unemployment is examined in Chapter 5. The evidence reviewed there clearly demonstrates that youth employment, and especially black youth employment, is highly sensitive to aggregate economic conditions (the business cycle).¹⁶ This suggests that when jobs are available, youth are there to take them.¹⁷

Discrimination

Although it is difficult to measure, discrimination is still an important source of labor market problems for minorities generally, and especially for those who are young. Discrimination against women tends to take the form of occupational segregation and low earnings; their unemployment rates are not much higher than those of young men.

Clearly much discrimination can occur before young people enter the work force.¹⁸ Our concern here, however, is with their experiences in the labor market, where discrimination can result in less employment, lower earnings, or both, for equally qualified minority youth.

Since the early sixties racial earnings differentials among youth have narrowed significantly. At the same time, however, the unemployment rate differential has risen. The reasons for these opposing trends are not well understood. One possible explanation is that equal opportunity legislation has resulted in a tradeoff between wage discrimination and employment discrimination.¹⁹ That is, if

¹⁶See Freeman, (May 1979); James Luckett and Robert Flanagan, "Youth Employment Policy Review Issues," (Washington, D.C.: Council of Economic Advisers, April 1979); Wachter in Anderson and Sawhill (1980); Ralph Smith et al., "Recession and the Employment of Demographic Groups," *Brookings Papers on Economic Activity*, No. 3 (1974); Paul Osterman (July 1979). See also Stanley Friedlander, *Unemployment in the Urban Core: An Analysis of Thirty Cities with Policy Recommendations* (New York: Praeger, 1972).

¹⁷Also see the discussion later in this chapter under the heading "Willingness to Work."

¹⁸For an analysis of the black educational experience in this context, see John Ogbu, *Minority Education and Caste: The American System in Cross Cultural Perspective* (New York: Academic Press, 1978).

¹⁹See in particular the discussion in Robert J. Flanagan, "On the Stability of the Racial Unemployment Differential," *American Economic Association Papers and Proceedings*, Vol. 66, No.2 (May 1976).

equal opportunity legislation or social pressures force employers to provide equal pay, then discrimination may increasingly take the form of not hiring minorities instead of paying them less. While it is unlikely that employers are more prejudiced than in the past, it is possible that they have substituted one form of discrimination for another, thus accounting for some of the widening disparities in the employment prospects of minority and other youth.

There is evidence that discrimination is an important explanation for the current disparities. Research has found that holding constant those factors known to influence the employment prospects of all groups (such as geographic location and previous experience), minority youth are more likely to experience unemployment than whites. For example, one study of young men (16-21) in low-income areas found that almost 50 percent of the black/white unemployment rate differential was attributable to race.²⁰ Further, approximately 90 percent of the differential between Spanish-speaking and white young adults appeared to be due to ethnicity.²¹ The presumption is that these differentials are due to discrimination, although there may also be some unmeasured differences in productivity not easily captured in the analyses.

A substantial proportion of unemployment rate differentials has been attributed to age.²² However, to some extent (especially among men), age is a proxy for the number of years of labor force experience. That is, the older the person, the longer the time he or she has had to learn about how the labor market operates and to gain on-the-job training. Thus, it is almost impossible to specify what portion of youth/adult unemployment differentials is due to age *per se* (age discrimination) and what part is due to the effects of previous experience (legitimate differences in productivity).

²⁰Duane E. Leigh and V. Lane Rawlins, "Racial Differentials in Male Unemployment Rates: Evidence from Low-Income Urban Areas," *Review of Economics and Statistics*, Vol. 56, No. 2 (May 1974). Osterman had similar findings: 55 percent of the difference in the average annual weeks of unemployment between blacks and whites could not be explained by differences in their personal characteristics. See Paul Osterman, "Racial Differentials in Male Youth Unemployment," in U.S. Department of Labor, *Conference Report on Youth Unemployment: Its Measurement and Meaning* (Washington, D.C.: U.S. Department of Labor, 1978). See also, Robert Flanagan, "Discrimination Theory, Labor Turnover, and Racial Unemployment Differentials," *Journal of Human Resources*, Vol. 13, No. 2 (Spring 1978).

²¹Leigh and Rawlins. This evidence should be taken as indicative only since the sample size for Spanish-speaking youth is small.

²²Leigh and Rawlins compared the effect of being 16-21 versus 22-34 years old among whites, blacks and Spanish-speaking men. Their findings indicate that controlling for other factors, 43 percent of the age differential in unemployment rates among whites is

The major problem with the research to date is that while employers apparently do differentiate among workers on the basis of age, race (ethnicity), and sex, we know little about the process by which this differentiation takes place. The information which does exist strongly suggests that there are wide variations in hiring standards and that subjective evaluations of job applicants may be the rule.²³ These hiring procedures may effectively exclude minorities and women from certain jobs even in the absence of conscious prejudice on the part of employers. A sufficient condition for exclusion exists when employers do no more than exercise their natural preferences for those with similar backgrounds, values and lifestyles and use recruiting networks consistent with these preferences. In addition, there is the possibility of statistical discrimination. That is, employers may base their hiring decisions less on the background and qualifications of the individual, and more on the presumed characteristics of the group to which he or she belongs.²⁴ Problems stemming from this form of discrimination may be compounded by occupational stereotyping. Employers may view only some jobs as "appropriate" work for women, men, whites, blacks, Hispanics, or young people in general. If vacancies exist for other positions, employers may not consider hiring a person from the "wrong" demographic group.²⁵

Structural Imbalances

Another set of explanations for high youth unemployment, and the widening differential between black and white youth in particular, focuses on a growing imbalance between the types and locations of available employment on the one hand and the qualifications and locations of youth on the other.

One hypothesis is that joblessness among black youth is related to associated with age; among blacks, 46 percent; and among Spanish-speaking persons, 55 percent.

²³Daniel Diamond and Hrach Bedrosian, *Industry Hiring Requirements and the Employment of Disadvantaged Groups* (New York: New York University, School of Commerce, 1970); E. Lynton et al., *Employers' Views on Hiring and Training* (New York: Labor Market Information Network, 1978); Oswald Hall and Richard Carlton, *The Study of Albertown*, Occasional Paper 1 (Toronto: Ontario Economic Council, 1977).

²⁴For example, if youth in general are viewed as having high turnover rates, then an individual young person may not be hired for a job which requires a great deal of on-the-job training. See E. Anderson in Anderson and Sawhill (1980) for a discussion of this problem for black youth.

²⁵It should be noted that we also know little about the occupational desires of young people and the extent to which they place restrictions on the occupations they will accept.

the fact that they are disproportionately located in central cities where few entry-level jobs are available. The empirical evidence suggests, however, that **residential location** is not a major factor in explaining either the relatively high rate of joblessness among black youth or the deterioration in their relative position. It has been estimated that if the black population had been relocated to match the residential distribution of whites, the black teenage unemployment rate would only have been reduced by about 5 percentage points in 1978 (from 40.5 to 35.1 percent).²⁶ In addition, there is no evidence that the suburbanization of employment opportunities between 1960 and 1970 had any significant impact on black youth employment. This may be due to the **simultaneous** movement of jobs and white youth to the suburbs, which gave minority youth in the city an opportunity to capture a larger share of the remaining pool of jobs.²⁷

On the other hand, the labor market problems of black young men do appear to be related to the changing **industrial structure** of the economy.²⁸ Young men of both races are disproportionately concentrated in certain industries and these industries have experienced either no growth or only sluggish growth over the past decade. As the relative number of youth jobs has declined, young men have not moved into other sectors of the economy. Instead, it appears that white youth have been capturing an increasing share of a rather stagnant pool of jobs.

One important change affecting black youth more than white youth has been the decline in agricultural employment. In 1960, 15 percent of all black teenagers were employed in this sector but only 6 percent of white teenagers. By 1970, the proportion of this age group engaged in agriculture had declined to about 4 percent for both racial groups.

Finally, it has been argued that the **rapid growth in the size of the youth cohort, and in the number of older women and undocumented workers** in the labor force has worsened the employment prospects of young people. An increase in the size of the youth cohort might reasonably be expected to influence labor market opportunities. Wages may be depressed, making alternative activities, such as schooling, relatively more attractive. Also, to the extent that

²⁶*Employment and Training Report of the President, 1978*, p. 73.

²⁷See Paul Osterman, "Black and White Youth Employment: A Cross-Sectional Analysis," (Boston: Regional Institute for Employment Policy, June 1979).

²⁸See Osterman (June 1979); Robert Mare and Christopher Winship, "Changes in Race Differentials in Youth Labor Force Status," paper prepared for the National Commission for Employment Policy, December 1979.

employers do not view youth and adults as substitutable at the prevailing wage scales, the share of youth who are employed will be adversely affected. Recent research has indicated that the population bulge of the youth cohort has had a negative impact on the percentage of youth employed while simultaneously increasing the percentages unemployed in school and engaged in other non-market activities.²⁹

Whether older women workers and undocumented workers affect the labor market for youth depends largely upon the degree to which these groups are substitutable for young people, and thus in competition with them. There is little direct evidence on this issue. Recent work has indicated that in the manufacturing sector, older white women (25 years or older) do appear to be substitutes for youth (14-24 year olds) and that unless there is a decline in the cost of hiring young people, some displacement will occur.³⁰ However, we do not know which youth older women are replacing.³¹ Also, the degree of substitutability among these various groups in sectors other than manufacturing has yet to be estimated.³²

The possibility of competition between undocumented workers and youth can only be inferred. Studies on the characteristics of these workers have dealt almost entirely with those from Mexico (little is known about the non-Mexican groups). These studies suggest that undocumented workers are in their late twenties, predominantly male, poorly educated (the great majority with less than six years of schooling), often farmworkers from rural areas, and economically motivated. In the U.S. they are generally employed in low-paying, low-skill jobs.³³ All of this would suggest that undocumented workers may be displacing youth, particularly young men. However, the size of the effect is not known, largely because there are no reliable estimates on the number and location of undocumented workers.³⁴

²⁹See Michael Wachter and Choongsoo Kim, "Time Series Changes in Youth Joblessness," paper presented at the National Bureau of Economic Research Youth Unemployment, Airlie, Virginia, May 1979.

³⁰Daniel Hamermesh and James Grant, "Do Employers Substitute Workers of Different Ages, Races and Sexes, and What Does This Imply for Labor Market Policy?" paper prepared for the National Commission for Employment Policy, October 1979.

³¹The existence of occupational segregation by sex suggests that older women are most likely to displace younger women.

³²Research currently underway for the NCEP by Daniel Hamermesh and James Grant should shed some light on this issue. Their final report is expected early in 1980.

³³Wayne Cornelius, "Illegal Migration to the United States: Recent Research Findings, Policy Implications and Research Priorities" (Cambridge: Massachusetts Institute of Technology, 1977); Joyce Kjalet, *Illegal Aliens: Analysis and Background* (Washington, D.C.: Congressional Research Service, 1977).

³⁴INS reports indicate that the majority of undocumented workers are in the South west. However, it must be noted that INS data are not representative of the total

3. The Employability of Youth

Introduction

While there is uncertainty about the relative importance of various factors that affect employability, there is general agreement that together they can seriously reduce the likelihood that youth will be successful in the labor market. The factors considered here include: lack of education as measured by years of schooling or basic competencies, lack of work experience or training, and "poor" attitudes.

Educational Competencies

The literature on the determinants of earnings strongly supports the commonsense observation that people with more education receive higher pay. Controlling for other factors, college graduates fare better than nongraduates, and high school graduates fare better than those without a high school diploma. The reasons for the relationship between education and earnings are still in dispute. One possibility is that education enhances productivity and that higher earnings reflect this greater productivity. Another possibility is that education simply signals other characteristics about people. For example, it may be that intellectual ability and motivation are responsible for a youth both completing high school and earning high wages.³⁵

The nature of the relationship between education and unemployment is even less well understood. The literature on the determinants of unemployment among noncollege youth has not produced consistent findings. As indicated at the beginning of this chapter, high school dropouts tend to have much higher rates of unemployment than graduates; but after adjusting for other differences between the two groups, the relationship is less clearcut. While some research has indicated that a diploma raises the probability of obtaining a job, other studies have found it has no effect and still other studies have found that a high school diploma assists young white men but not members of other demographic groups.³⁶

undocumented population. Increasing numbers of aliens from other nations than Mexico are also entering different parts of the U.S. particularly the northeast and midwest. Thus, in addition to the southwest, large concentrations of undocumented workers apparently can be found in New York City, Maine, Detroit, and in the San Francisco Bay area. Recently, there has been a relatively rapid expansion of this group in other major urban areas from California to the Connecticut-New Jersey area as well. This expansion reportedly is centered in manufacturing and in the service fields, particularly hotels and restaurants.

³⁵This issue is taken up again in Chapter 6, in which education program experiences related to youth employability are reviewed.

³⁶Researchers who found that a high school diploma lowers the probability of unemployment are Jerome Johnston and Jerald Bachman, *The Transition from High*

In any case, it is difficult to argue that a lack of schooling is responsible for the deterioration in the employment prospects of minority youth since their educational attainment has been rising rapidly. Between 1970 and 1977 the proportion of the population, aged 25 to 29, with a high school degree increased from 66 to 87 percent among whites and from 38 to 74 percent among blacks. It is, of course, possible that achievement among minority youth (as distinct from attainment) lags behind that of whites and that this differential is partially the cause of their current employment problems. Still, there is no evidence that differences in achievement levels have widened over the decade and thus explain the worsening employment situation of minority young people.³⁷

Work Experience

Among noncollege youth, being employed while in school is associated with a lower probability of unemployment during the period shortly following school attendance.³⁸ Several explanations for this have been proposed. Through employment while in school, young people may acquire useful skills or learn about the "world of work"—how to behave and how to dress for a job interview. They may also gain references which reduce a potential employer's hiring risks, or establish a network of job contacts which is useful when full-time, full-year employment is desired. Finally, it has been suggested that young people who work during their school years may simply be a more ambitious and highly motivated group and that their later employability reflects these particular personal characteristics rather than their previous employment. Recent research indicates that the

School to Work: The Work Attitudes and Early Occupational Experiences of Young Men (Ann Arbor: University of Michigan Institute for Social Research, 1973). Some of the research which found no effect on unemployment of a high school diploma includes Leigh and Rawlins; Herbert Parnes and Andrew Kohen, "Labor Market Experience on Non-College Youth: A Longitudinal Analysis," in *From School to Work: Improving the Transition* (Washington, D.C.: NCMP, 1976); and Stanley Stephenson, "The Transition from School to Work with Job Search Implications," in U.S. Department of Labor, *Conference Report on Youth Unemployment: Its Measurement and Meaning*, (Washington, D.C.: U.S. Department of Labor, 1978). Results which differed by demographic group were obtained by, for example, Paul Andrisani, *Work Attitudes and Labor Market Experience*, (New York: Praeger Press, 1978).

³⁷James P. Smith and Finis R. Welch, "Black-White Male Wage Ratios: 1960-70," *American Economic Review*, Vol. 67, No. 3 (June 1977). See also the discussion in Chapter 6.

³⁸Johnston and Bachman; Eileen Appelbaum and Ross Koppel, "The Impact of Work Attitudes Formed Prior to Labor Market Entry on the Process of Early Labor Market Attainment," in Andrisani (1978); Stanley Stephenson, "The Short Run Employment Consequences of Work Experience While in School," paper prepared for the National Commission for Employment Policy (December 1979).

explanation may be even more straightforward than the above hypotheses would suggest. Namely, youth who are employed part-time during the school year typically move into full-time positions with the **same employer** after they leave school.³⁹

Within the already-experienced labor force of young men, years of job tenure are important in reducing the likelihood of unemployment when the national unemployment rate is rising and layoffs are occurring throughout the economy.⁴⁰ Indeed, the lack of seniority among young people is one of the reasons for the cyclical sensitivity of their unemployment during economic downturns. However, even when the national unemployment rate is low and few layoffs are occurring, it appears that job tenure does not reduce the likelihood of a layoff among young black men.⁴¹ One reason is that black youth are concentrated in occupations and industries which even in "good times" provide unstable job opportunities. In fact, a considerable part of youth labor market problems arises because the jobs youth (and especially minority youth) hold are disproportionately low skill. Such jobs require little investment (in the form of recruitment or training costs) on the part of employers, and employees feel free to quit, knowing that another "dead-end" job will be easy to find. Thus, work experience may be no protection against unemployment if it does not involve on-the-job training.

Attitudes

Employers, whether or not they are looking for workers with special skills, do want their employees to have certain attitudes and work habits. Such characteristics as a neat appearance, a respectful demeanor, an interest in the type of work a firm is doing, and a general alertness are found to be important in the hiring decisions of employers.⁴² As reasons for not hiring youth, employers frequently cite immaturity, instability and high turnover.⁴³ Of course, it may be that a vicious circle occurs: youth are confined to low-paid, dead-end

³⁹Stephenson (December 1979). The long-term effects of nonwork while in school are discussed in Chapter 3. Surveys of firms do indicate that experience, particularly in the same or a related occupation, is a preferred characteristic among job applicants. See Diamond and Bedrosian.

⁴⁰John Grasso, "Dimensions of Youth Unemployment," in U.S. Department of Labor, *Career Thresholds*, Vol. VI (Washington, D.C.: U.S. Department of Labor, Osterman (1978).

⁴¹Flanagan (Spring 1978).

⁴²Lynon et al.; Paul Osterman, "Youth Labor Market Structure," No. 26 (Boston: Boston University, Department of Economics, November 1978).

⁴³Diamond and Bedrosian; U.S. Bureau of Labor Statistics, *Youth Unemployment and Minimum Wages*, Bulletin 1657 (Washington, D.C.: U.S. Government Printing Office, 1970).

jobs on the grounds that they are too irresponsible and unreliable for skilled ones. When they are then absent, or quit in disgust, the circle is complete; they have proven their unreliability.

Alternatively, it may be that employer perceptions of youth behavior are largely accurate and that the kinds of jobs youth hold reflect their own preferences. For the most part, unburdened by family responsibilities, young people may choose a lifestyle that maximizes leisure time, working primarily because they require income for specific purposes, because they are urged to do so by their parents or because they value the social interaction. According to this view, youth pass through a "moratorium period" which naturally subsides as they mature.⁴⁴

While it is clear that employers view young applicants with some suspicion, there is little direct evidence on youth attitudes. That which exists suggests that the view of youth as uncommitted and unreliable workers is overstated. Controlling for the occupations in which people are employed, there are virtually no differences by age in absenteeism nor in views on what makes a job attractive. For instance, both youth and adults "desire to do meaningful things," "want intellectual stimulation," and "a chance for personal growth."⁴⁵ At the same time, those who operate youth programs in the field consistently report that young people are more motivated by the wages or stipends they receive than by any other aspect of their employment.

Willingness to Accept a Job

One of the reasons suggested for unemployment among youth is their unwillingness to accept employment at the going wage. According to this view some proportion of youth unemployment is "voluntary" because available jobs are rejected.

The willingness to accept a job offer depends largely upon the attractiveness of the offer (e.g., wages, working conditions and prospects for the future) compared to actual or perceived alternative opportunities. An individual's estimate of the worth of his or her alternative uses of time is called the "reservation wage." Youth

⁴⁴Paul Osterman, "The Structure of the Labor Market for Young Men" (Boston: Boston University, Department of Economics, undated).

⁴⁵For some of the research in this area see Andrisani (1978); Sue Berryman, "Youth Unemployment and Career Education: Reasonable Expectations," *Public Policy*, Vol. 26, No. 1 (Winter 1978); and Patricia Miller and William Simon, "Do Youth Really Want to Work?" in U.S. Department of Labor, *Supplementary Papers from the Conference on Youth Unemployment: Its Measurement and Meaning* (Washington, D.C.: U.S. Department of Labor, 1978).

unemployment may occur if their reservation wages are higher than the wages they can actually command in the labor market.

Empirical evidence on the reservation wages of young people is sketchy at best. One kind of evidence which supports the contention that unwillingness to accept a job is not a major source of youth unemployment is that youth typically take the first job they are offered. One study found that 78 percent of successful young job seekers took the first job offered.⁴⁶ Another study found that 90 percent of both black and white male job seekers took the first job offered and that the reservation wage of youth adjusts downward the longer they search for work.⁴⁷ These studies, however, are based on limited samples and their general validity has not been established.

On the other hand, there is some evidence that young people's reservation wages, as manifested by their occupational aspirations, may be too high. One study found that 59 percent of young white males and 52 percent of young black males aspire to professional or technical careers, while only 15 percent of all employed males work in these fields.⁴⁸

There is also limited evidence to support differences in attitudes between minority and white youth toward the acceptance of lowpaying menial jobs. One study reports that the wage expectations of blacks aged 16-19 were 15 cents per hour higher than whites of the same age and more than 30 cents higher than what they earned at their last job.⁴⁹ As one author described the situation, "But for the inner city black youth with high aspirations and real doubts about his prospects in the labor market [low-wage] jobs are very easily viewed as 'deadend,' offering the specter of a permanent position at the bottom of the social order."⁵⁰

Reservation wages may be high too because of the existence of alternative sources of income. Employment in the subeconomy—for instance, fencing stolen merchandise, hustling, pimping or

⁴⁶Osterman (November 1978); see also Hylan Lewis et al., *Improving Employment Opportunities for Female Black Teenagers in New York City* (Washington, D.C.: U.S. Department of Labor, Employment and Training Administration, 1977).

⁴⁷Stanley Stephenson, "The Economics of Youth Job Search Behavior," *Review of Economics and Statistics*, Vol. LVIII, No. 1 (February 1979).

⁴⁸John Grasso and John Shea, *Vocational Education and Training: Impact on Youth* (Berkeley: The Carnegie Council on Policy Studies in Higher Education, 1979); see also Andrew Silk, "Is It Me or the System?—The Ambivalence of Youth Unemployment," Internal Report, Edna McConnell Clark Foundation (November 1978).

⁴⁹Paul D. Flaim and Paul M. Ryscavage, "Lowering Youth Unemployment: How Much and At What Cost?" in U.S. Department of Labor, *Conference on Youth Unemployment: Its Measurement and Meaning* (1978).

⁵⁰E. Anderson in Anderson and Sawhill (1980).

trafficking in drugs—is one such source. It has been suggested that the subeconomy is a major source of income for young men in urban centers.⁵¹

Welfare and other income maintenance payments are a second source of income that may reduce the willingness of youth to work. While relatively few teenagers receive unemployment benefits,⁵² teenagers may be affected by the transfer payments available to other family members. The evidence on this issue is mixed. One study found that increases in nonearned income reduce work effort among 20 to 24 year old men and women by only small amounts.⁵³ In contrast, a study of the Seattle and Denver income maintenance experiments found significant reductions in work effort among youth who do not head families and these reductions were related to the receipt of income transfers.⁵⁴

4. Labor Market Transitions

One reason that youth have higher unemployment rates than adults is simply because they are more likely to be new entrants to the labor force and to move frequently among employers before settling down into a more permanent career. In 1977, for example, about 70 percent of unemployed teenagers but only about 40 percent of unemployed adults, had recently (re)entered the labor force. Also in that year about one-third of 16-24 year old men, in contrast to about one-quarter of older men (25-44), worked for more than one employer. Still, a spell of unemployment need not accompany labor force (re)entry or job changing. A person out of the labor force may hear of a job and become employed without ever having actively sought work. In addition, there is evidence (cited below) that many workers move into the labor force and between employers without becoming unemployed.

A major part of the black/white differential in unemployment can be traced to the difficulty that minority youth have in making suc-

⁵¹Paul Bullock, *Aspiration vs. Opportunity, "Careers" in the Inner City* (Ann Arbor: Institute of Labor and Industrial Relations, 1972).

⁵²In the May 1976 Current Population Survey, only 10 percent of unemployment out-of-school male teenagers were reported to be receiving unemployment insurance benefits.

⁵³Stanley Masters and Irvin Garfinkel, *Estimating the Labor Supply Effects of Income-Maintenance Alternatives* (New York: Academic Press, 1977). This study was based on the 1967 Survey of Economic Opportunity and the 1972 Panel Study of Income Dynamics.

⁵⁴Richard W. West, *The Effects of the Seattle and Denver Income Maintenance Experiments on the Labor Supply of Young Nonheads*, paper prepared for the U.S. Department of Health, Education and Welfare (June 1978).

cessful transitions, either into the labor force or between employers. Black youth are less likely to find a job without active search; that is, they are less likely to move directly from being out of the labor force to being employed. Also, while black youth are no more likely to quit a job than whites, they are more likely to quit into unemployment. Finally, once unemployed, young blacks spend a longer time than young whites searching for work.⁵⁵

Whether a young person becomes unemployed, or remains unemployed, depends in part upon the amount and quality of the labor market information that he or she has at hand. Clearly, even if youth have no employability problems, they must know where and how to look for work. There is good evidence that minority youth and persons from low-income families tend to use job search mechanisms that differ from their white/nonpoor counterparts. They rely more on formal mechanisms, such as want-ads and public employment services; by contrast, white youth and persons with higher incomes use "informal methods," such as contacting employers directly or asking friends and relatives about available opportunities.⁵⁶ At the same time, surveys of persons and of firms indicate that the most effective means of looking for work is by direct application to the employer or by contacting friends or relatives.⁵⁷ Of course, simply altering the job search methods used by minority and low-income youth will not necessarily be sufficient to reduce their unemployment. Certainly the use of friends or relatives, for example, is only as effective as the knowledge of the labor market that those friends and relatives have.

Some portion of the unemployment differential between age groups, and within the youth population between the races may also be attributable to young people's lack of occupational information.

⁵⁵See Osterman (1978); Ronald Ehrenberg, "The Demographic Structure of Unemployment Rates and Labor Market Transition Probabilities," paper prepared for the NCEP (February 1979); John Antos and Wesley Mellow, *The Youth Labor Market: A Dynamic Overview* (Washington, D.C.: U.S. Department of Labor, 1978); Kim Clark and Lawrence Summers, *The Demographic Composition of Cyclical Variations in Employment* (Washington, D.C.: U.S. Department of Labor, Office of the Assistant Secretary of Policy, Evaluation and Research, 1979).

⁵⁶For example, in the National Longitudinal Surveys, 16 percent of black young men but 10 percent of whites use a public employment agency; and 40 percent of the whites, but 22 percent of the blacks contacted employers directly (U.S. Department of Labor, *Career Thresholds*, Vol. 1 [Washington, D.C.: U.S. Department of Labor]). See also, Leigh and Rawlins; Bullock; Osterman (November 1978).

⁵⁷See Harvey Hilaski, "How Poverty Area Residents Look for Work," *Monthly Labor Review*, Vol. 94, No. 3 (March 1971); National Chamber Forecast and Survey Center, "A Survey of Federal Employment and Training Programs," (Washington, D.C.: U.S. Chamber of Commerce, 1978).

Employers indicate that they prefer to hire people who have some basic knowledge and interest in the type of work for which they are applying. Employers also indicate that young people have misconceptions about alternative occupations.⁵⁸ National surveys of youth report similar findings: young people have little understanding of various occupations, the job tasks embodied in them and their educational requirements. The problem is particularly severe among black youth.⁵⁹

But the extent to which a lack of occupational information is responsible for unemployment problems among youth has not been determined. Researchers have not found that better occupational information reduces the likelihood of unemployment and there is only sketchy evidence that it reduces the duration of the job search period.⁶⁰

5. Conclusions

At the outset of this chapter three questions were posed regarding unemployment among young people. Why is their unemployment rate higher than that of adults? Among youth, why does the minority population experience greater problems than the white population and finally, why have the racial differentials in employment and unemployment been worsening over the past decade? The evidence on these issues indicates that there are no simple answers to these questions.

Whether one wishes to stress preparation for work while in school or access to jobs later on, it is clear that not all youth are likely to experience difficulties. Many young people make the transition to adult roles quite successfully; a substantial proportion of youth unemployment reflects their movement from school to work as well as their natural tendency to move from job to job. But some youth unemployment is also the result of the failure of the economy to expand sufficiently to absorb all new entrants into the labor force. To

⁵⁸See, for example, Lynton et al.

⁵⁹On an occupational information test that was administered, 44 percent of the white male high school graduates received a high score, but only 12 percent of the black men received such a score. Among female high school graduates, comparable figures for white and blacks were 45 and 22 percent, respectively; U.S. Department of Labor, *Career Thresholds*, Vol. I; U.S. Department of Labor, *Years for Decision*, Vol. II (Washington, D.C.: U.S. Department of Labor, 1971). See also Phyllis Wallace, *Unemployment Among Black Teenage Females in Urban Poverty Neighborhoods* (Washington, D.C.: U.S. Department of Labor, Manpower Administration, June 1972).

⁶⁰U.S. Department of Labor, *Career Thresholds*, Vol. III (Washington, D.C.: U.S. Department of Labor); Parnes and Kohen.

the extent that existing jobs are reserved for their incumbents on the basis of seniority, the problem of absorbing new entrants is intensified.

The current experience and historical trends found for minority youth are not fully understood. Over the past several decades there has been a confluence of events that seems to have affected their labor market position. First, part of the widening employment gap between black and white youth is due to the increasing number of black youth who are enrolled in school. In addition, there have been shifts in the industrial structure of the economy that have eliminated jobs in which minority youth were disproportionately employed. This trend has been exacerbated by an increasing supply of white youth (and possibly older women and undocumented workers) from whom employers could also choose their new workers. Concomitant increases in legal and social minimum wages, along with fear of being found in violation of antidiscrimination laws, may also have made employers increasingly reluctant to hire black youth. Finally, the aspirations and expectations of black youth may have been increasing at a more rapid pace than their qualifications.

As with these long-term trends, there appears to be no one cause of the employment difficulties of today's minority youth. Relative to their white counterparts, these young people have educational deficits. They also do not have access to the informal contacts which help people secure good jobs. Finally, problems of discrimination continue. Subjective evaluations play an important role in hiring decisions and it appears that similarly qualified minority and white youth are not treated in a similar fashion.

Senator HATCH. I have a lot of other questions for the Department, and we certainly appreciate you, Mr. Secretary, taking time from your busy schedule to be here. We appreciate the cooperation that you have given to this committee in the past and we know that you will be very helpful in the future.

You have indicated that you feel that you ought to wait until the Commission makes its report. Can you tell me about what percentage of the workers in this Nation are unionized?

Secretary DONOVAN. Somewhere between 24 and 26 percent—well, he is saying it is as low as 20 percent. The latest Bureau of Labor Statistics figures on union membership was 22,698,000 in 1978. That was 24 percent of total employment at that time.

Senator HATCH. As low as 20 percent. Some people pointed out that the Commission itself may be somewhat overweighted towards that particular point of view, so I hope you will take that into consideration as well.

Secretary DONOVAN. We will take that into consideration.

Senator HATCH. The Chairman of the Commission himself has never varied from that point of view, as I understand it, and at least three others of the seven-member Commission have that particular point of view. So, I would like you to take that into consideration along with everything else that we are asking here today.

Is it possible, Mr. Secretary, to perhaps have a report back to the committee within a relatively short period of time, so that we can proceed with further hearings on this matter and continue to see what we can do to resolve this serious problem of youth unemployment, and especially black and minority youth unemployment?

Secretary DONOVAN. We will do it as quickly as possible. We recognize the seriousness of it.

Senator HATCH. Could you give me some indication of the time frame? Could you do it within 6 weeks?

Secretary DONOVAN. I do not know the size of the workload to fulfill your request, frankly.

Senator HATCH. What is your estimate of it?

Mr. BERRINGTON. If the question refers to the Labor Department activities as opposed to the Minimum Wage Study Commission, I suspect that the compilations that you requested can be done within that period of time, and we can certainly make a good start on the more analytical pieces that you have requested.

Senator HATCH. Well, that would be beyond the time when the Commission should have its report back. Why do we not make it 2 months, or thereabouts, and give you some extra time?

Also, what I would hope is that we could have a report back to the committee of the findings and conclusions of your Department and yourself, say, within the next 2 months. Would that be possible?

Secretary DONOVAN. Yes; that is adequate, I believe.

Senator HATCH. If you need any more time, we will be happy to certainly work with you on that.

I have a number of other questions, but my time is up. Thank you.

Senator NICKLES. Thank you, Senator Hatch.

Senator Kennedy?

Senator KENNEDY. Would you include in that report the number of man-hours or woman-hours it took to do the report and also its cost to the Labor Department.

Senator HATCH. I am sure that will be minimum, compared to what it has been in the past for others.

Senator KENNEDY. We have heard a lot about Government paralysis by analysis and I think we ought to find out, in terms of the request, what it is going to cost the Labor Department to do that and over what period of time.

Senator HATCH. Would the Senator yield for a question?

Senator KENNEDY. Well—

Senator HATCH. Just for one little, tiny comment?

[Laughter.]

Senator KENNEDY. I will yield.

Senator HATCH. I tend to agree with Senator Kennedy. We have too many commissions and too many studies, and they cost the taxpayers an awful lot of money. Most of them have occurred over the last 50 years. Frankly, we have just blown so much dough around here trying to figure a solution to a problem that is really relatively easy to figure out, and that is that our youth are getting killed in this country because we will not look for new ideas. That is the problem.

Senator KENNEDY. When you are doing the review, perhaps you will take a look, Mr. Secretary, at Senator Williams' bill that addressed the problem of youth employment last year. It was endorsed by the Republican Policy Committee in the House of Representatives. I think there were only 50 votes against it in the whole House of Representatives; it had strong bipartisan support there, and strong bipartisan support on this committee, as well.

But given the time frame that we were faced with here in this committee—and I was not here during much of that period of time—that there was a decision made that we were not going to consider it until we had an opportunity to consider the subminimum. That was the position of a small group of individuals on this committee and in the Senate.

But what was adopted in this committee recognized, I think, one of the very important points which you have underlined and which I would agree with, and that is the complexity and the difficulty of this particular issue and that there are no easy, quick answers.

H. L. Mencken said that for every complicated problem, there is a simple, easy answer and it is wrong. I think you correctly stated here this morning that before you were prepared to embrace any of these concepts, you recognized the difficulty and the complexity of these issues and you were going to make sure that you get the best existing analyses, as well as the reports that are already onstream.

In reading through this report, we see that after hours and hours of hearings on the problems, we are discovering many reasons for youth unemployment.

But just in the introduction and the need for legislation:

What lies beneath the statistics is a matter of even more critical concern—the stark reality that many unemployed youths lack the proficiency and basic skills in reading and writing and computing. They are also unprepared in attitude, habits and training to enter the work place. Employer after employer cited the lack of adequate training for a job, insufficient instruction in the basic skills, and the

absence of a responsible attitude as major reasons for a youthful person's failure in a job setting.

Then it continues to try to address those issues.

It seems to me that it would be worthwhile, for your own understanding, and perhaps for all of us on this committee, to review and look back at what was recommended in the Youth Act of 1980, which I think would have moved us much further along toward trying to deal with some of these flow lines and trend lines which are measured on a chart, but are also measured in enormous human tragedy and loss and despondency and crime and other factors.

So, I, as Senator Williams, would be interested in some of the particulars that you have raised here with regard to enforcement and how you would ever expect to establish that kind of a mechanism. Also, what it is going to take to assume that there would not be the displacement of the older, more skilled worker, by substituting a younger worker for a head of a household who is attempting to provide for the members of his family.

You have indicated that you were not interested in building another wing to the Labor Department there with additional bureaucracy for this enforcement.

But I do not know what thoughts or what ideas you have about how you plan to structure that kind of a program. Do you want to comment or would you prefer to wait until you have a more specific recommendation?

Secretary DONOVAN. Well, when we talk about the enterprise zones, I think that is a hopeful concept. It is something we are giving attention to, bringing the jobs to the people. I think that is a block grant approach to some specific training for specific jobs, where they exist.

Senator KENNEDY. Have you had an opportunity to visit some of the training center sites at all?

Secretary DONOVAN. I have not as yet, no.

Senator KENNEDY. I would hope perhaps that you might.

Secretary DONOVAN. If I could ever get off the Hill, I would. [Laughter.]

Senator KENNEDY. Touché. Well, since we are going to have a period in which this issue will be addressed, I would hope you would have an opportunity to visit those sites.

The Ambling County Skill Center in my own State of Massachusetts actually received a Labor Department award for both the placement and the maintenance of jobs for school dropouts and the types of profiles that are measured in this chart that I showed earlier. They are combining with the industries, with the schools, church groups, and community organizations, and working in a training atmosphere to give individuals both some of the basic and essential skills and training skills.

I am impressed that some of the members of this committee—Senator Quayle and others—have indicated that even in their concern with budget restraint, they do feel that the training aspects of the CETA program should be given attention, priority and support.

I would hope that at least some time before you come back, you would have a chance or an opportunity to do this. We have several

excellent ones in my own State and I am sure there are others, but I would certainly hope that you would have that opportunity.

There is a recent study by the National Center for Jobs and Justice that estimates that 2.5 million workers are being illegally paid less than the full minimum wage at this time because of the Department of Labor's failure to enforce the current law.

I am wondering if you are familiar with that statistic and that problem, and what the Department is doing about it.

Secretary DONOVAN. We do not know where they got that statistic. If it is true, enforcement should be much stronger, but I do not know where they got it and neither does Craig.

Senator KENNEDY. Well, I referred earlier to the Times story about the working conditions in the garment industry, where thousands of undocumented workers are employed in sweatshop conditions and paid rates substantially below the minimum wage.

Is this a problem or is it not a problem?

Secretary DONOVAN. Craig?

Mr. BERRINGTON. It has been a problem, quite clearly.

Senator KENNEDY. It has been or is?

Mr. BERRINGTON. It is a problem, and the Department has operated special target enforcement programs in the garment district in New York and we would intend to do that as the need arises.

Senator KENNEDY. Well, can you give us a little bit more information? I mean, what have you found? How many investigations have you made; what is the status of the investigations? What is the magnitude of the problem?

Mr. BERRINGTON. We can provide specific data for the record, surely. But in general terms, what we have found is that a large number of these workshops do not even keep good enough records for us to make a judgment as to whether the minimum wage has or has not been provided.

However, we have brought legal action against dozens of them, which we believe is beginning to have an impact, though in no way will it resolve the entire problem in that garment district or others.

Senator KENNEDY. Well, it is my understanding, and it certainly would be indicated in the reports, that these sweatshops are operating openly in the garment district. They are continually doing that, and I am just trying to find out what the Department is going to do about it.

Secretary DONOVAN. Well, if they are operating openly, they certainly should be addressed and closed down. Craig indicates that there is a special task force; I am not aware of it as yet. But if it needs beefing up, we certainly will do that.

The word "sweatshop" sometimes leaves a lot to be interpreted. If, by that, you mean they are being paid under the minimum, certainly they are breaking the law and they should be prosecuted.

Senator KENNEDY. Well, I am trying to get some sense of the urgency felt by the Department itself and how they feel about this problem. These allegations and charges indicate that they are operating openly; that they virtually are equal to the kind of sweatshops that existed in many parts of the country 20, 30, 40 or 50 years ago. You know, there are hazardous conditions and dangers with regard to fires; very significant exploitation of child labor law regulations and other violations of the law.

We have seen it on television; we have read about it in the newspaper. We have had estimates by at least one study, and I will make that available, Mr. Secretary, that there are more than 2.5 million workers now being paid less than the full minimum wage, in clear violation of the law. That exists today, and I am just trying to find out about your sense of indignity about this.

Secretary DONOVAN. I am very indignant, but this did not all start in the last 5 weeks, I trust, since we came here.

[Laughter.]

Senator KENNEDY. That is right, and so I am interested in whether you are doing something about it.

Secretary DONOVAN. We have and we will, and if it means strengthening it, we will, sir.

Senator KENNEDY. The fact of the budget cuts in terms of your own Department, how will that reflect the effort to respond to enforcement?

Secretary DONOVAN. Are you talking about reduction in force?

Senator KENNEDY. Yes.

Secretary DONOVAN. It is, in my view, frankly, a very minor reduction in force. We have 23,000 employees and there is a reduction of about 1,200 across the board and across the country. It should have no effect, and I am convinced that there is a need for more productivity and efficiency in this Department and it can more than make up for that reduction in force.

Senator NICKLES. Senator Kennedy—

Senator KENNEDY. My time is up. Just a last comment on this subject, if I could.

I would like to ask, when you do come back here, that you give us a report on at least the nature of this particular violation of the law and what the Department is doing about it.

[The information referred to follows:]

COMPREHENSIVE INVESTIGATIONS BY THE WAGE AND HOUR DIVISION OF THE U.S.
DEPARTMENT OF LABOR

The Wage and Hour Division of the U.S. Department of Labor has conducted comprehensive investigations of the often publicized sweatshop conditions which exist in the New York City garment manufacturing industry. The Wage and Hour Division is responsible for the enforcement of minimum wage and overtime standards, child labor regulations, and related recordkeeping requirements of the Fair Labor Standards Act as these standards are applied to the garment industry in New York City. As a means of detecting violations of these standards, a Chinatown strike force was established which targeted the garment industry for the focus of a concentrated enforcement effort.

The Chinatown strike force was initiated in February 1979 and resulted in over 400 investigations. Of these, 128 disclosed violations of the FLSA. Eighty-five separate civil injunctive actions were filed in U.S. District Court. Two civil contempt actions were also filed against Chinatown firms previously found in violation of the Act alleging failure to come into compliance. Violations of the minimum wage, overtime, child labor, and recordkeeping requirements were found. The widespread recordkeeping violations made it difficult to determine the amount of back wages due employees. Even so, \$82,000 was found due 207 employees. Compounding the problems encountered as a result of recordkeeping violations, the Chinese workers in the affected firms were reluctant to speak with investigators. They feared employer reprisals, especially the loss of their job.

Other concentrated enforcement efforts have been utilized in areas of the country and in industries which are known to be in frequent violations of the labor laws. The garment industry was the target of strike force operations in northern New Jersey, Brooklyn, the Bronx, and Los Angeles. The Los Angeles strike force effort began in March 1980. More than 60 investigations were conducted with monetary findings of \$658,000 due nearly 1,400 employees. Employers initially agreed to pay

nearly \$100,000 in back wages with the rest being sought through litigation by the Department. Suits were filed against five firms seeking to permanently enjoin them from future violations of the FLSA.

Other strike force efforts have been undertaken in Houston, Dallas/Fort Worth, Miami, Eastern Massachusetts and along the East coast involving such industries as restaurants, manufacturing, construction, hotels and motels, and agriculture. A Farm Labor Contractor Registration Act strike force was utilized effectively as an enforcement tool along the East coast resulting in more than \$1 million in recommended civil money penalties and back wages found due. A concentrated enforcement effort has recently been concluded in Miami with \$1.8 million in underpayments and \$1.2 million in agreements to pay. Another effort is currently underway in the garment district of New York City. This will serve as a follow-up to our original involvement in that industry during fiscal year 1979 and early 1980.

Concentration of enforcement activity by the Wage and Hour Division is specific geographic areas involving targeted industries has proven to be cost effective and extremely productive. Although the garment industry has received considerable publicity, other industries have also been found to have widespread violations of the FLSA. Over \$6.5 million has been found by strike force teams in the two years that this enforcement tool has been used. Well over \$3 million has been returned to employees with additional restitution forthcoming as a result of litigation activity by the Department.

Senator NICKLES. Thank you, Senator Kennedy.

Senator Quayle?

Senator QUAYLE. Thank you, Mr. Chairman. First of all, I want to commend you for holding these hearings and searching for alternatives to the youth employment problem that we have in this country.

Mr. Secretary, reading your statement and listening to your answers to the questions, I understand that you are definitely not going to take any kind of a position until after this Minimum Wage Study Commission report comes out in May as far as a youth differential. Is that correct?

Secretary DONOVAN. Yes; except to say, as I said in my testimony, Senator Quayle—

Senator QUAYLE. Conceptually, you favor it.

Secretary DONOVAN. We support the concept of the subminimum wage. But on specific legislation, that is correct; we need more time to study it.

Senator QUAYLE. Assuming that there is no damaging information by the Minimum Wage Study Commission or it does not shed any more controversial light than what we have right today, do you anticipate shortly thereafter the administration coming forward and supporting the subminimum wage?

Secretary DONOVAN. Rather than looking at the negatives, we are really looking at what we can positively suggest to you as a comprehensive answer to the problem. If the problem still exists and the negatives are what we understand them to be now, yes, I would say we would.

Senator QUAYLE. Well, you do not think that there is going to be any tremendous turnaround in youth unemployment in the next couple of months?

Secretary DONOVAN. Oh, no.

Senator QUAYLE. I mean, it is still going to be a very negative issue and there are going to be a lot of young people that are going to be out of work in May. You know, you say that conceptually you favor this; you want to wait for this information. But it looks like we are on the road to your formal recommendation of a youth differential. Would that be a correct statement?

Secretary DONOVAN. That is a correct statement, yes.

Senator QUAYLE. OK. Will the administration be proposing any increase in the minimum wage itself?

Secretary DONOVAN. It has not been addressed.

Senator QUAYLE. Do you think it will be addressed?

Secretary DONOVAN. I have no way of knowing; I really do not. The general consensus would be no, but it has not been formally addressed.

Senator QUAYLE. The general consensus is that it will not be addressed and there will be no recommendation to increase the minimum wage coming forward, right?

Secretary DONOVAN. That is my general feeling.

Senator QUAYLE. That is your general feeling. I have read in the newspapers—and I have not talked to any people directly about it—but some of the business groups are sort of backing off from the youth differential now, saying that if we would go forward with a youth differential, we would get into the whole minimum wage battle and whether we are going to increase that or not. Some advocate the possibility that you are really going to establish a subminimum wage for everyone in due time, including youth, by doing nothing.

What is your response to that? Is that an accurate assessment of what is going on?

Secretary DONOVAN. Well, my response is that the newspapers indicated that the chamber of commerce is getting cold feet; I think that is the expression. I do not think either the Congress or we can afford the luxury of cold feet. It is a tremendous tragedy out there that has to be addressed. I am not allowing that to influence my objective thinking on the subject.

Senator QUAYLE. On a youth differential, will that also include a raising of the minimum wage, or are we going to keep it the same?

Secretary DONOVAN. That apparently is the fear, that they seem to be linked. I do not look on it with any linkage.

Senator QUAYLE. So, you are looking at it from the point of view of establishing an 85 percent or 90 percent subminimum wage from the effective minimum wage right now. You do not anticipate raising the minimum wage and then saying that the subminimum wage would be basically what we have today. Is that correct?

Secretary DONOVAN. That is accurate, yes.

Senator QUAYLE. That is accurate.

You favor the concept of the youth differential. What about the concept of wage subsidies to employers for hiring and training these youth?

Secretary DONOVAN. Something similar to the targeted tax credit?

Senator QUAYLE. No; something similar to the incentive program where subsidies are paid to employers, which is different from the tax credit. The tax credit is another concept that we do use, but this is a direct cash payment to employers.

Secretary DONOVAN. Well, when we talk about looking at it comprehensively, I guess that is something that will be discussed. Philosophically, I do not know that that would work. It deserves analysis; it is part of the overall program that we are trying to study between now and May. The block grants for the youth pro-

grams—that is one possible use, but I am not convinced it is a meaningful step.

Senator QUAYLE. What about the tax credit?

Secretary DONOVAN. I like the idea. It entices the private sector to do hiring, but evidently the bureaucracy and the redtape is such—at least that is what the businessmen who have come to my office say—that it has made it unattractive to them. Let us face it; they are talking about some very difficult situations. Some of these youth are difficult to hire, and they make a value judgment, I presume, without any social conscience about it, and say that it just is not worth it.

Senator QUAYLE. In all these studies that have been going on, has there been any comment or advocacy of putting in a pilot program that would work sort of along the lines in the summer, in certain areas, maybe on a demonstration basis, to allow the hiring of summer youth on a subminimum wage? Has there been any discussion of that idea?

Secretary DONOVAN. There has been discussion of some pilot programs in cities like New York and Los Angeles. I am sure of this: The tragedy is so broad that I am not persuaded that there is even time to do these studies. What we will learn from the studies—what may be found in New York may not be easily transferrable to Houston. As Senator Hatch has indicated, we have re-invented the wheel in some areas. Studies may be a cop-out is really what I am saying, and not facing the true issue.

Senator HATCH. I am really glad to hear you say that, Mr. Secretary. I think that is exactly what it has been for the last 50 years.

Senator QUAYLE. Mr. Secretary, twice in your statement you talked about a broad-based youth employment strategy. Could you amplify on that?

Secretary DONOVAN. Yes. I have in mind the Kemp-Garcia, or the free enterprise zone approach. I know it has deficiencies and there has not been enough debate on it and maybe enough imagination put to it. But taking these hard-core unemployed areas in our major cities, we should address the possibility of bringing the jobs to the location, and that is what this free enterprise zone thrust is all about. I see that as a positive step, with all of the implications with regard to making hiring of the hard-core unemployed youth much more attractive to the business community such as tax credits or unemployment compensation reductions and social security reductions. I think, the broad-based youth employment strategy is a far broader, more meaningful approach, with subminimum as part of the package, possibly.

Senator QUAYLE. And that is basically the thrust of this broad-based youth employment strategy that you are developing?

Secretary DONOVAN. Plus an analysis of the block grant approach and the youth education programs, and getting a clearer focus or definition on where to spend those moneys to help solve the problem.

Senator QUAYLE. Let me try to add a little bit, if I can, to this, and I hope you can pursue it, and that is my concern—and it was expressed by Senator Kennedy and Senator Hatch also—about the training aspect of our young people.

Now, we have the Job Corps, but the way the administration's proposal is and with these block grants that we are now getting into, there is virtually nothing left for youth training. Something is going to have to be done to get into training.

I favor the enterprise zone concept; believe me, I favor it. But if these people are not trained to get a job and do not have the ability to be trained, it is not going to do any good to create these enterprise zones because those people are not going to be equipped to go out there and fill the vacuum of employment in the private sector.

I hope that in your broad-based youth employment strategy—and I repeat that because you had it twice in your statement—you really focus on training. You know, we put this budget together in 3½ weeks, and there are going to be mistakes and everybody is going to make mistakes. I really think that so far, there has been a mistake made on not emphasizing youth training.

The Job Corps is good and we are going to continue that, but that is only part of it. I hope that in your broad strategy, training is emphasized because I think it is very, very important.

Secretary DONOVAN. In all of my testimony on the Hill here on the CETA program, that was the very area we emphasized, training and private sector jobs.

Senator QUAYLE. Well, I want to continue that and I just wanted to bring that out in this broad-based strategy for youth unemployment that we are talking about. We are seeking alternatives, but training is really the key to the whole thing and I am glad that you agree, and I look forward to working with you on coming up with training programs that are going to help our young people.

Secretary DONOVAN. Thank you.

Senator NICKLES. Thank you, Senator Quayle.

Senator Riegle?

Senator RIEGLE. Thank you, Mr. Chairman. I must say that as I was listening to the Secretary, I am sure he would like to get out into the field and do things. His trip today before the committee is somewhat more enjoyable than the last time he was here, at least when he was here during the confirmation process.

Secretary DONOVAN. It is in the same room too, is it not?

Senator RIEGLE. Yes, it is.

I think that your testimony today highlights the fact that we are really not ready yet to have a serious discussion on this issue in a focused way. I do not mean by that any disrespect for the scheduling on the part of the chairman, and I want to wish him well as chairman of this subcommittee. It is an important responsibility and I look forward to working with you in the months ahead.

But I think that as the testimony today already has indicated, you are not ready, really, to come to grips with this issue yet. You need more time; I think we are going to need a lot more time to really pin down what is involved here. Let me just raise a few questions with you. Some of this, you may have covered earlier; if not, I want to go through it quickly.

Do you know approximately the number of people today who are working at the minimum wage level who would be adults?

Secretary DONOVAN. Yes; we testified to that number.

Craig?

Mr. BERRINGTON. I said we would provide it for the record; I do not have it with me. In the private nonfarm sector (excluding domestics) over three-fifths of the subject workers earning the minimum wage are 20 years of age and older. This amounts to about 3 million workers.

Senator RIEGLE. Well, I would like an approximation. You know, there is a difference between 10 percent and 90 percent. What is your best guess?

Mr. BERRINGTON. Of the percentage of the adult work force that is working?

Senator RIEGLE. No; the percentage of people who are working at the minimum wage who are adults. Do you think it is more than 50 percent?

Mr. BERRINGTON. No; it is not.

Senator RIEGLE. You are sure of that? I have seen data that indicates, for example, that the number of people working at the minimum wage today—perhaps as many as 70 percent might be adults.

Mr. BERRINGTON. I misunderstood that question.

Secretary DONOVAN. Yes.

Mr. BERRINGTON. I think that is probably right.

Senator RIEGLE. You think that is right?

Mr. BERRINGTON. I do not have the number and I do not want to give a wrong number.

Senator RIEGLE. I understand, but if we are going to have any kind of a discussion at all today, I think we have to know whether that is in the range of what the likely accurate number is. Your first response was to the effect that you thought that probably was accurate, something in that range of 70 percent. It certainly is more than 50 percent, is it not?

Mr. BERRINGTON. Yes.

Senator RIEGLE. OK. I think that is a very good starting point because if more than 50 percent of the people in the country who are working at the minimum wage level are adults, then one of the first questions we have to ask is the displacement question.

Obviously, if there were a serious effort made to create a new, lower minimum wage for young people—for teenagers, presumably—then the fact that over half of the work force presently working at the minimum wage are adults means that many of them, I think, would be apt to lose their jobs. I would think that businesses hiring people at the minimum wage, if they could hire somebody else at a lower figure, would be inclined to do so. It creates an incentive for them to move that way. I can see a number of these adults who are working at the minimum wage being laid off. Is that not a likely circumstance? Would there not be at least some displacement of that kind?

Secretary DONOVAN. Yes, I think there would be some displacement. There is no hard study on the numbers, and that is part of the analysis we are going to try to make.

Senator RIEGLE. I might just make a suggestion to you. I know that a lot of our unemployment among teenagers in terms of very large numbers is in major metropolitan areas. It would be true, for example, in New York; it would be true in Detroit; it would be true in some of the other major cities around the country.

I would guess that in those areas where you have a large part of your problem—namely, young people who would like to work and who are unable to find work—that would be a good place to target in on in terms of the number of adults who are working at the minimum wage, so that we could really get a handle on the displacement factor.

I would hope that the administration would not propose going forward with a plan that was going to displace adult workers who are working at the minimum wage. I think that would be foolhardy in the extreme, and I would hope that that would not be the intention of the administration.

Secretary DONOVAN. Even if it were a very low number and the net gain would be far greater?

Senator RIEGLE. Well, I would be very troubled about any program that displaced adults working at the minimum wage. Where do they go? What scrap heap do they end up on? Do they go on welfare, or what?

Secretary DONOVAN. If the debate surrounded the premise that if one was displaced and the debate went no further, we could stop here because we recognize that it will.

Senator RIEGLE. We are not talking about one person being displaced—that is why I asked the percentage in the first place. We know that over half the people working at the minimum wage are adults, and it looks like it is a figure closer to 70 percent. So, the displacement risk is very high and very substantial, and I think you know that. We ought to start by facing that, so that we do not kid ourselves about what is at risk if we take this step.

But let me ask you this: have you looked at the question of what the minimum wage provides in the way of income for a 40-hour week? Are you familiar with those numbers?

Secretary DONOVAN. Yes; Craig is.

Senator RIEGLE. Pardon?

Mr. BERRINGTON. The minimum wage over a 40-hour week?

Senator RIEGLE. Yes.

Mr. BERRINGTON. It is a simple mathematical computation.

Senator RIEGLE. Well, let us just do the math.

Mr. BERRINGTON. It is \$134.

Senator RIEGLE. That is right; it is \$134 a week, and that is a gross salary. Now, let us take a look at what would be the logical deductions from that. You would certainly have social security taxes that would come off the \$134 a week. Do you have any idea of what those would be?

Mr. BERRINGTON. I do not have any idea, Senator.

Senator RIEGLE. Well, let us just acknowledge that there would be a deduction, then, for social security taxes. Presumably, depending upon where you are, there would be State and local taxes in addition to that. I do not know if there might be any deductions for other purposes, but just starting with those that we know about, that whittles the \$134 a week down by some significant amount.

Now, let us take one of the major population centers in the country where we know we have literally hundreds of thousands of unemployed youths. Let us take New York City.

If you take a look at somebody who is working 40 hours a week to earn this gross wage of \$134, you have transportation costs

getting to and from work. I do not know what the subway fare is, say, in New York City today, but I know it is a significant figure and it is apparently going to rise. You have clothing; you obviously have a different pattern of clothing needs if you are working and have to go to work each day for a 40-hour week than if you are not.

You have some amount of money that is required for food, and food is not cheap in New York City. Housing, which is a major cost item in any budget and would be for somebody living, say, in New York or in Detroit or in Los Angeles, also has to be looked at.

Then you have utility bills. I know people in Michigan right now whose utility bills are running more than \$134 a week, and I am talking about people who are not living in sumptuous situations; a lot of them in older housing units that are poorly insulated, and so forth. In the dead of winter when the temperatures are coldest, they are actually running utility bills that would eat up the entire minimum wage on a gross basis, let alone a net basis.

Then there are medical costs. If anybody happens to get sick or has a toothache, or what have you, obviously they must do something about it.

Now, this is just thinking in terms of one person who is responsible only for supporting himself. A lot of people, including a lot of young people, are responsible for people other than just themselves. Many are married; many have families; many have older parents that they are supporting.

I am just wondering as a practical matter—and I address this as well to the sponsors of this legislation—if you take the \$134 and you start whittling it down by the deductions that come off the top and what it takes to sustain yourself today in a place like New York or any other major metropolitan area, I am just wondering if that really constitutes a living wage, whether it is a wage that somebody can really function on. It is certainly below what the poverty level, in terms of the indices we use to measure the amount of money it takes in today's inflated economy to try to survive.

If we are going to reduce the current minimum wage—which I think already stretches the ability of a person to function in our higher-cost metropolitan areas where most of this problem is where would you go? How low do we take it?

What is a dollar figure that we might even think about plausibly if we are not going to think about this figure, which, to me, seems like pretty much a bare minimum? Where do we go from there?

Secretary DONOVAN. It is a lot more, you know, than nothing; that is the answer to it.

Senator RIEGLE. But you cannot live on nothing.

Secretary DONOVAN. No, and that is what they are attempting to do right now; that is the issue, Senator. You paint a logical picture. When you see these raw numbers, no one is living high on the hog, but those people who are unemployed have nothing.

Senator RIEGLE. Well, this goes back to the first point. Let us say we drop the minimum wage from \$3.35 to \$2.75, or whatever number somebody wants to pick, and you reduce still further, then, the total amount of earnings, especially after social security and other taxes.

Take into account that an adult may be forced to give their job up at \$3.35 an hour because it now makes more sense for the business person to go ahead and lay that person off and to hire the youth at \$2.75 an hour—I mean, how do we come out ahead in that situation? I do not see how we come out ahead there.

It seems to me we come out behind two ways. I just wonder how we reconcile it.

Secretary DONOVAN. This is not scientific, but I personally know a lot of youth who would work at \$2.75 an hour gladly.

Senator RIEGLE. But what about the adult who has to surrender their job to the youth—the adult that was scraping by at \$3.35 an hour?

Secretary DONOVAN. Craig reminds me we are making assumptions of large displacement. No one makes that assumption. There are displacements; you hear numbers as low as 15 or 20 percent. I am not ignoring the fact that that is a grave situation for that older, displaced worker.

We are addressing here people who are in a tragic situation and who are earning nothing. When you go through the mathematics as you did, we are not suggesting that this is even a living wage, but it is a beginning; it is getting work habits; it is getting some money in their pockets. That is all.

Senator RIEGLE. Let me suggest an alternative route to you that I think could work and where we could hopefully avoid the displacement factor and still accomplish your objective and my objective of getting more young people to work, and providing the training. I recognize this is not an easy task, especially in major metropolitan areas. In fact, in many cases it is tough to get the businesses to locate there to provide the jobs. So, it is not just a matter of tinkering with wage scales or tax incentives, or what have you; it is partly a question of how many jobs might there be in any case, or are the jobs in the area where the young people are living or are they in some other place.

I would think that if you want to try to provide an incentive to induce a business person to hire an unskilled or an untrained young person and give them job experience and training, maybe what we ought to be doing that within the tax code itself, with the Government providing some portion of the minimum wage by means of a special tax incentive or a tax credit or a tax training credit that would enable that company to meet the minimum wage, which I think is needed to hold body and limb together in our society today. Enable that business, with the help of marginal tax assistance from the Government, to create a job opportunity and a job training situation, and offer youths job experience with the notion that as they become trained and experienced and regular in their work habits, after whatever period of time—3 months, 4 months, 6 months—they would then be productive enough to be able to hold their own at a minimum wage level that the Government did not have to be part of helping to provide.

It seems to me that that might be a more constructive way. It seems to me that if you tear apart the wage structure you are going to run into major displacement problems. It is inescapable; if 70 percent of the people now at the minimum wage are adults, it has to tell you something. I know what it tells me; it tells me that

there is not going to be much room at that level for anybody else because the adults are taking the lion's share of those jobs.

I think that unless you create a special incentive of the kind that I have just mentioned, I do not think we can really get at this problem.

Senator NICKLES. Senator, we are under the 10-minute rule, and we are now at about 12 or 14 minutes.

Senator RIEGLE. I did not realize that. If I can just make one other comment, then I will yield.

Senator NICKLES. Sure.

Senator RIEGLE. I appreciate the courtesy of the committee.

I think, also, we have to look at the tax side of the administration's economic recovery package. I think you are going to have to have some kind of a refundability provision in the areas of the country like the Northeast and the Midwest, and some of the sectors in the country like autos and steel, where the tax incentives do not really help them because they are in loss positions, and, therefore, the accelerated depreciation does not really reach the problem.

I think that if you can find a way to inject more economic strength in the areas that are in trouble in the Northeast and the Midwest, you will automatically create a richer job environment. Hopefully, some of those adults at the minimum wage level can start moving up the ladder and create a spot for more youth to move in.

I would urge you to take a look at that. As the fighter for labor issues and job opportunities in the executive branch, I would hope you would be able to weigh in on the tax side too, so that could be fine-tuned to help you solve this problem—you and ourselves together to solve this problem.

Secretary DONOVAN. That is being addressed now, and I applaud your attitude. Without the growth and without the economic package, we are really not going to make a meaningful dent in this problem, Senator.

Senator NICKLES. Thank you, Senator.

Senator Hawkins?

Senator HAWKINS. I am going to yield 30 seconds of my time.

Senator QUAYLE. Thank you, Senator. I just want to make a factual point on this displacement argument. We now have the tax credit up to 50 percent for the first \$6,000, and there is no data that shows that this is going to displace adults. We already have that and there is no evidence that has come forward to show that there is going to be a lot of adults displaced by that.

I would say that perhaps it may be the same for the youth differential, and I would just like to add that that is a fact. No one has come forth to show that.

I thank the Senator for yielding.

Secretary DONOVAN. In addition, it seems that there are many jobs out there that would open up that would help minimize the displacement feature.

Senator QUAYLE. But there is no evidence right now to show that this tax credit, which goes to youths only, would displace adults.

Senator RIEGLE. Mr. Chairman, would you also yield—

Senator NICKLES. Senator Hawkins has the time.

Senator RIEGLE. Would you yield just for a factual point on this? I would be happy to yield to you at a future point.

Senator HAWKINS. Put that in your book, Senator.

Senator RIEGLE. Pardon?

[Laughter.]

Senator HAWKINS. OK.

Senator RIEGLE. It is my understanding that there are about 10 million people who work at the minimum wage today. If you had a 20 percent displacement factor, and nobody quite knows what it might be, that would be two million workers. We are talking, even with small percentages, about very large numbers of people.

I thank the Senator for yielding, and I will give her twice the amount of time—

Senator NICKLES. Senator Hawkins?

Senator HATCH. Senator Hawkins, would you yield 30 seconds to me? I will remember it too; I will put it down in the book over here.

[Laughter.]

Senator HAWKINS. I will come back at 1 and have it all to myself.

[Laughter.]

Senator HATCH. If you would, I would appreciate it.

If they were so concerned about displacement—and there is no empirical evidence of it—then why did we escalate the minimum wage and lose 90,000 jobs just in the last change? Now, this is a question that very seldom is asked.

I am going to submit some questions to you, Mr. Secretary, rather than ask any more. But I was interested in your comment that some businesses are backing off on the youth differential. My personal feeling is that some of those businesses, to borrow a phrase from some of my friends in the House, may be a little bit timid. I might add that for some of them, there may be a real justification for putting chicken between those buns in the process.

I think that after all these years of fighting for this, for anybody to back off thinking that there is not going to be a fight on whether it should be escalated again and we lose another 90,000 youth jobs—that is pretty nearsighted.

Secretary DONOVAN. I would agree.

Senator NICKLES. Senator Hawkins?

Senator HAWKINS. Secretary Donovan, recently I read where you have been quoted as saying that considering the amount of money being spent on CETA youth programs, you feel the results have been very disappointing. I understand that you favor retailoring the CETA youth programs to encourage jobs for youth in private industry.

I also believe that more emphasis should be placed on hiring workers in the private sector. Do you not agree that the legislation we are considering today will be the most direct method of encouraging employment of youth in the private sector?

Secretary DONOVAN. I am not certain, Senator. I certainly feel that it is a step forward, but it is only one tool, as I see it.

Senator HAWKINS. Are just poor youths considered for the CETA program?

Secretary DONOVAN. Pardon me? I did not hear you.

Senator HAWKINS. Are just youths that are considered poor eligible for the CETA program?

Secretary DONOVAN. No.

Senator HAWKINS. There is no income limit for the parents of the young people that are in the CETA program?

Secretary DONOVAN. Well, there are several programs; some designed for minority youth, and others much broader in their concept than that.

Senator HAWKINS. I read an article the other day in the Wall Street Journal about a CETA program that intrigued me, in which they trained youths to be clerks in retail establishments by taking video tapes of them and showing them at the end of the day. Even in that type of an atmosphere, the retention rate was so small of those that actually stayed in the program and actually went to work that the more I read the article, the more I thought that actual experience probably would be more beneficial, because as long as they were in the CETA program, they knew they could come back tomorrow.

Indeed, if that had been an actual job and the employer had been taking the video tapes and showing them and encouraging them—I recall the first job I had as a clerk in a store. The manager would come by and tell me to stand up straight and not to lean on the counter. You know, we did not have the closed circuit TV and all the toys they have today to teach you how to sell.

The reason I stood up tall and did what the manager said was because I needed that job. I needed to be employed the next day. But if you are in a program and you know you are going to get your check no matter what, you may not be inclined to listen and to learn.

It just occurred to me that by encouraging employment in the private sector and by lowering the minimum wage so that we do have this youth differential, they could actually be employed and not be considered as an experiment or in training, so to speak.

Are you familiar with the article that was in the Wall Street Journal?

Secretary DONOVAN. No, I am not, but I think you put your finger on one of the major problems in some of the CETA programs. I agree with you. I remember my first job too; I think it was 35 cents an hour then. But I was very proud, and it gives you a feeling of—people do not like to hear it—the work ethic. I think to that degree, a subminimum would be beneficial.

Senator HAWKINS. Most of the young people I talk to in my State feel that something is better than nothing.

Secretary DONOVAN. I agree; that is what I said to Senator Riegle.

Senator HAWKINS. Yes. Therefore, I am still really encouraged that we have some people that are willing to look at this and not have closed minds in that it was a law that was passed in 1938.

But I am concerned that I keep hearing over and over again the statement that for every individual that we hire, somebody has to be laid off; I have heard that today with displacement. Is that really true? Are there a finite number of jobs in this country?

Secretary DONOVAN. I think there is not a finite number, no. But under these circumstances, if this action were taken tomorrow,

would there be displacement? Yes, but I agree with you; it is a very negative and defensive way to look at it. If we have growth, the opportunities hopefully will be tremendous.

There are jobs out there waiting to be filled. The minimum wage, there is no question in my mind, tends to keep those jobs off the market because people do not like to hear it, but in a free enterprise system, employers put a value on worth. And a teenager's worth in this system that we operate under apparently is not worth the minimum wage, or else they would have been hired. I think that is really what we are addressing.

Senator HAWKINS. Thank you, Mr. Donovan.

I am going to yield the rest of my time, Mr. Chairman.

Senator NICKLES. Thank you, Senator

Mr. Secretary, we will give Senator Hatch just a brief moment.

Senator HATCH. Mr. Secretary, I think you have testified under difficult circumstances as a brand new Secretary coming here, and I think you have done a very good job. There is some additional information, however, that I would like the people in your Department to look over.

Like I say, I think this problem has been studied to death and I think it is time to make some aggressive choices and maybe start pushing a new idea on behalf of these young kids in our society everybody just seems to write off in the interest of appeasing special interest groups.

I have confidence that you will look at this carefully and if we can come up with a better method, we will change that second; if we can come up with a better method to get our kids to work and to solve this cancer of teenage unemployment, especially among our black youth, we will endorse it immediately and we will come up with a bill that will implement it. So, I challenge everybody in this country to help us come up with a better way.

Some additional information that your people should look at are studies done by Walter Williams at Temple University, Daniel Hammermesh at Michigan State, Jacob Mincer writing in the Journal of Political Economy, James Ragan writing for the Review of Economics and Statistics. Of course, there have been many others who have been both pro and con on this issue, but what it comes down to is making a choice, and hopefully a choice that will help these kids.

Now, Mr. Chairman, I would like to also commend to the Secretary and his staff, and ask that it be placed in the record at this point, an article in U.S. News & World Report dated March 30, 1981, entitled, "Who Is Helped or Hurt if Youths Are Paid Less?" I think it is a pretty unbiased article and basically states the issues in this matter, and maybe it would help anybody who reads this record.

Senator NICKLES. Thank you, Senator Hatch.

[The article referred to follows:]

[From the U.S. News and World Report, March 30, 1981]

Labor

Who's Helped, Hurt If Youths Are Paid Less

If teen-agers were paid less than the minimum wage, what would be the impact? That's the question Congress is about to debate.

Rampant joblessness among the nation's youth has become a top priority topic among leaders of government, business and labor.

The debate is now focusing on a proposed remedy: A "subminimum wage" for youth. Intended to make teen-agers more economically attractive to employers, the plan is supported by President Reagan and some business groups but opposed by organized labor.

Essentially, the question is whether unemployment among young people can best be dealt with by government spending for job-training programs or by persuading businesses to lure more youths through such inducements as lower wage rates.

What everyone agrees on is that high youth unemployment is breeding other social problems—crime, drug abuse and long-term economic hardship for millions of young people. "It's an American tragedy," says Labor Secretary Raymond Donovan.

Last year, with overall unemployment averaging 7.1 percent, teen-age joblessness reached 17.7 percent, up from 16.1 percent in 1979.

For black youth, the lack of work is far more pervasive. In 1980, their jobless rate averaged 38.6 percent, and in some big cities like Detroit it went as high as 60 percent.

A subminimum wage is not the only proposed solution. Other approaches being talked about on Capitol Hill and elsewhere include providing "bonuses" or tax credits to firms that hire disadvantaged young people, and increased federal support for youth jobs and job-training programs.

The Reagan administration and Republicans in Congress have made it clear they favor a greater role for private industry and less government involvement in curbing youth unemployment. Says Donovan, "With all the money we've expended through CETA [the Comprehensive Employment and Training Act], the results are not only disappointing—they're tragic."

Reagan seeks to eliminate or curtail a host of job programs, including the

Young Adult Conservation Corps, the Youth Employment and Training Program and some CETA youth projects.

Labor Department officials cannot estimate how many of the 2.3 million youth jobs available in 1980 because of government support would be eliminated under the Reagan budget cuts. But the National Youth Work Alliance, a Washington, D.C. based lobbying group, estimates the loss at 750,000. "And that's a conservative figure," says NYWA policy analyst Mary DeGonia.

Private solution. The reductions, says Donovan, are in line with Reagan's view that the long-term solution to youth unemployment lies not in federal programs but in a healthier business climate. "Without the emphasis of the private sector," he says, "I don't know how we can solve this problem."

Against this backdrop, business and labor groups are squaring off for what promises to be an emotionally charged fight over the subminimum wage. A Senate subcommittee scheduled hearings on the measure March 24 and 25. Its sponsor, Senator Orrin Hatch (R-Utah), wants to cut the minimum wage, now \$3.35 an hour, by 25 percent for workers under age 20. After six months on the job, these workers would receive the full minimum wage.

Supporters of the plan, which is similar to one narrowly defeated four years

ago, contend that it will create thousands of jobs for unskilled young people who are now priced out of the job market by increases in the minimum wage.

"Many jobs which can be performed by unskilled young workers are simply not worth the full minimum wage to employers," says Hatch. Lowering the wage level for teens, he says, would provide "an incentive to business to take a chance on young people."

Some major employers of young people agree with Hatch. Steak & Ale Restaurants of America, a nationwide chain that employs some 16,000 workers, about half of them at the minimum wage, has cut its employment rolls by about 15 percent since 1977.

Richard Berman, vice president of the Dallas-based firm, says this was a "direct result" of increases in the minimum wage.

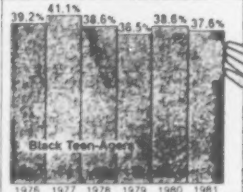
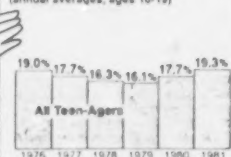
"Labor costs rise, and you have to find ways to cut back," says Berman. "So you eliminate busboys, you do with one bartender instead of two, you have fewer waitresses. The sad part is, many of these people were earning \$9 an hour with tips, but because of a 20-cent increase in the minimum wage, we had to let them go."

Service often suffers as a consequence. "Five or ten years ago," says Mark deBernardo, a labor-law attorney for the Chamber of Commerce of the U.S., "there were more clerks in department stores, more ushers in theaters, more carwash attendants. Now it's self-service. Higher labor costs are forcing employers to become more labor efficient. The net result is, you have a lot of youths who want to work and can't."

Daniel Hamernesh, an economics

Teen-Age Woe

Unemployment Rates
(annual averages, ages 16-19)



Almost 1 of every 5 teen-agers who wants work is unable to find it. Among black youths, the ratio is nearly 2 out of 5.



Fast-food restaurants are a major employer of teen-agers. At some companies, youth job rolls have been reduced because of steady increases in the federal minimum wage.

consultant to the Minimum Wage Study Commission created by Congress, says that as a rule of thumb, each 10 percent increase in the minimum wage rate results in a 1 percent drop in youth employment. "There is no question that a subminimum wage would raise youth employment," he says. Adds Berman of Steak & Ale: "A lower wage would reverse the trend of putting people out of work who are already there."

Employers' windfall? Opponents of a subminimum wage contend that fast-food chains and other major employers of young people would reap the real windfall while thousands of adult workers, who make up 70 percent of the minimum-wage work force, would be displaced by youths earning lower wages.

"I have yet to meet anyone who can prove that lower wages will generate additional jobs and won't result in the substitution of younger for older workers," says Clara Schloss, an AFL-CIO economist. "Women moving into the work force—single heads of families—would be especially vulnerable."

A spokesman for the McDonald's Corporation, one of the largest employers of young people, agrees. "A subminimum wage might create more teen-age jobs," says Douglas Timberlake, director of corporate communications for McDonald's, "but it would eliminate jobs on the other end of the spectrum—the senior citizen or mother coming back into the work force. I don't think it would change the basic numbers substantially."

Economist Hamermesh estimates that for each additional three to nine youths employed as a result of a subminimum wage, "there would be one adult job that would not exist. However, it doesn't necessarily mean they'd be laid off. It means an adult would not be hired."

Regardless of whether a submini-

um wage would alleviate youth unemployment, say critics of the plan, some businesses stand to gain the most.

A recent analysis by the brokerage firm Dean Witter Reynolds estimated that McDonald's Corporation could save 31 cents per share on labor costs. The hamburger chain's earnings per share in the first nine months of 1980 were \$4.19.

"In our view," says the AFL-CIO's legislative director, Ray Denison, "the only beneficiary of a subminimum wage for teen-agers is the employer whose profits will increase."

Although President Reagan has voiced support for a youth subminimum wage, the administration so far has stayed out of the fray.

Reagan's advisers had hoped to forestall debate on the issue—and thereby avoid a confrontation with organized labor—until after the President's program for reducing federal spending and income-tax rates cleared Congress.

However, the youth-wage plan gained momentum recently when New York Mayor Edward Koch and Los Angeles Mayor Thomas Bradley both volunteered to experiment with subminimum pay to test its impact on youth unemployment.

Another idea of Senator Hatch's is for the government to pay bonuses to small businesses that hire unemployed young people for at least a year. The plan has been put on the back burner pending the outcome of debate on the subminimum wage.

Meanwhile, labor is pushing for continuation of federal job programs and an expanded government role in strengthening industries in high-unemployment areas.

Despite disagreements over specifics, the common point for all sides is that teen-age unemployment is a problem that cannot go unattended. □

By JEFFERY L. SHELTER

Senator NICKLES. Thank you, Secretary Donovan; we appreciate your assistance and your cooperation this morning.

Secretary DONOVAN. Thank you, Mr. Chairman.

Senator NICKLES. Our next guests will be Waldo Macey, who represents the National Association of Retail Grocers, and F. L. Stephens, who represents the National Association of Convenience Stores.

For the balance of our meeting, we have four panels set up. It is necessary that we be out of this room by 2 o'clock, therefore we are going to have to move the hearings along in a very quick and orderly manner. We would appreciate our witnesses, if possible, to only summarize and possibly make comments concerning any of the three pieces of legislation, and which one you think would be beneficial to you, yourself, the industry or the country.

Who is Mr. Macey?

STATEMENT OF WALDO L. MACEY, CHAIRMAN, MACEY'S, INC., MURRAY, UTAH, AND VICE CHAIRMAN, NATIONAL ASSOCIATION OF RETAIL GROCERS OF THE UNITED STATES; AND F. L. STEPHENS, PRESIDENT, TOWN & COUNTRY FOOD STORES, INC., SAN ANGELO, TEX., REPRESENTING THE NATIONAL ASSOCIATION OF CONVENIENCE STORES AND THE TEXAS RETAIL GROCERS ASSOCIATION, A PANEL

Mr. MACEY. Right here.

Senator NICKLES. You are from Murray, Utah?

Mr. MACEY. That is correct.

Senator NICKLES. You are chairman of Macey's?

Mr. MACEY. That is correct.

Senator NICKLES. And What is Macey's?

Mr. MACEY. A supermarket corporation.

Senator NICKLES. If you would proceed in a timely manner, we would appreciate it.

Mr. MACEY. Thank you very much, Senator, and I sincerely appreciate being here with you today.

I am vice chairman of the National Association of Retail Grocers of the United States, commonly referred to as NARGUS, and the owner of Macey's, Inc. in Murray, Utah.

NARGUS is a national, nonprofit trade association representing local operators of food retail stores, including convenience stores, grocery stores, box stores, warehouse stores, and supermarkets. NARGUS members serve the inner city, urban, suburban, and rural communities. NARGUS has approximately 40,000 members in all of the States of the Union.

Recently, NARGUS undertook a survey of retail grocers to evaluate the impact of the minimum wage; I believe we presented that report. The results of this survey to a great extent reflect the impact of the Federal minimum wage on consumers, employees, and retail grocers.

The retail grocery industry has traditionally been a large employer of teenagers for customer services which involve bagging, collection of bottles in bottle returns, carrying out groceries to the cars, et cetera. As the minimum wage increased 46 percent in the last 4 years, retail grocers have had to judge whether to retain such employment opportunities. Despite a willingness and a desire

by retail grocers to train and employ teenagers, the economic realities have decreased teenage employment opportunities in food retailing. Over 70 percent of the retail grocers responding have decreased the number of teenage employment opportunities.

The restrictions on employing full-time students at 85 percent of the minimum wage require special certification. Any retail grocery employer, including single units and multistores, may employ no more than six full-time students at 85 percent of the minimum wage without prior Department of Labor authorization. To employ more than six full-time students, applications must be submitted for each store and employment may not commence until the approval of the Department of Labor has been received.

A limit of 10 percent of the total monthly hours of all employees is imposed for employers seeking to employ more than six full-time students. I am going to cut out part of this testimony, so I may just have to break a little.

Senator NICKLES. Senator Hatch and I have both read your testimony; I will let you know that. So, we are with you.

Mr. MACEY. I will get to what I think is really important, Senator.

The result is that the paperwork and regulatory restrictions eliminate the incentive for retail grocers.

Unemployment for teenagers between 16 and 19 years of age was 19 percent in February of this year. For the black and minority people, the rate was 35 percent unemployment. Senate bill 348 would permit the employment of teenagers below the age of 20 at 75 percent of the minimum hourly wage for 6 months. Full-time students could be employed at 75 percent.

Senator NICKLES. Mr. Macey, could I interrupt and ask you a question at this point?

Mr. MACEY. Yes, sir.

Senator NICKLES. You mentioned in your survey of over 70 percent of retail grocers that they have reduced the number of teenagers working in their stores. If we had enactment of the differential proposed by Senator Hatch of a 25 percent reduction and possibly cut the paperwork that is involved, do you think that the grocers around the country would begin hiring more teenagers, or if we exempted people at the age of 16 and 17 from the minimum wage, would we see a resurgence of, grocery sackers across the country?

Mr. MACEY. I think so. There are many factors that go into this situation. The economics of doing business today—it is more than just the labor problem. There is the utility and the energy expense; it is the supply cost and the rental factors. There are so many things which are making it very, very difficult, extremely difficult, to come up with a profit. So, we are taking a critical look at every aspect of our business.

Labor is probably the one area that is not completely a fixed cost. So, yes, I think that when that cost factor would be improved, it would help; I am sure it would.

Senator NICKLES. Good.

Mr. MACEY. There are some stores that have changed their operations and have involved the consumer in part of the service work that young people were formerly employed in. We are not carrying

out the groceries; we are not bagging in many instances. I think there would be an incentive there for young people to be employed.

Senator NICKLES. Do you think the minimum wage is one of the reasons why many grocery stores do not bag groceries anymore?

Mr. MACEY. Well, they just simply cannot afford the labor cost. It is over 50 percent of our operational costs now, and so we are looking; we are doing time and motion studies. The kinds of equipment we buy—everything that goes into the operation, we are analyzing and taking a critical look at it. Where we cut, we cut; unfortunately, the young people are the ones that are being hurt.

Senator NICKLES. Mr. F. L. Stephens from San Angelo, Tex., do you have a brief statement? Then I think Senator Hatch has some questions.

Senator HATCH. I wonder, Mr. Chairman, if I might ask Mr. Macey just a couple of questions; he is from my State of Utah. I have to go to the chairmen's meeting and I will be a little bit late, but I would like to ask a couple of questions, if it would be all right with you, Mr. Stephens. I wish I could stay and listen to the rest of the testimony here today, but I will read it and hopefully it will clarify some of the issues and questions that I have.

As I understand it, Mr. Macey, in your operation you do hire unskilled workers?

Mr. MACEY. I did not hear you, Senator.

Senator HATCH. In your operation, you do hire unskilled workers.

Mr. MACEY. That is correct.

Senator HATCH. And I presume that most grocery stores do, is that correct?

Mr. MACEY. That is correct.

Senator HATCH. Basically, who instructs these unskilled workers or gives them training, once they come into these jobs? How do you do that?

Mr. MACEY. Many stores have programs set up for full-scale training programs. Many grocers cannot afford to have programs within the store other than on-the-job training. It is a process of working under a department head or a subdepartment head.

We have three store managers of our four stores that started as bottle boys and, over the years, have grown in the industry. That gives lie to this thing about a lot of people being displaced. We are not concerned with replacing people; we need a stable work force and we need to keep these people. But we need to make room for these younger people coming in.

Senator HATCH. But you are saying that in your rather small operation, you have taken young men and women at the lowest order of pay and then have brought them up into managerial levels, and I presume you have replaced them as they have moved up with others.

Mr. MACEY. Senator, very few of them stay very long at the minimum wage.

Senator HATCH. In other words, you hire them at the minimum wage, but then they make more than the minimum wage?

Mr. MACEY. That is correct.

Senator HATCH. So, the goal behind the youth differential is not just to replace people continually, but to gradually train people and get them to move upward in management, or to be able to expand

your business, from one grocery store to four in your case, and at the same time employ other people and train them. Is that correct?

Mr. MACEY. That is correct. Senator, it costs a lot of money to train people. You bring a young lady on to train as a checker; she handles a great deal of money. She works under extreme conditions of pressure. As she gains the working skill and the job knowledge, she becomes worth more money to us.

But we do suffer, in the training program, a loss of money. It takes time to train people. We need to bring these people in at a lower level and work them into the upper skills.

Senator HATCH. Do you feel that with your business, if you had the youth differential, you would be able to expand your business and that it would grow and you would be able to employ even more people?

Mr. MACEY. Certainly.

Senator HATCH. Well, I appreciate your coming back and testifying here today.

[The prepared statement of Mr. Macey follows:]

STATEMENT
ON
S. 348
BY
WALDO L. MACEY, VICE CHAIRMAN
NATIONAL ASSOCIATION OF RETAIL GROCERS OF THE UNITED STATES
BEFORE THE
LABOR SUBCOMMITTEE OF THE
SENATE COMMITTEE ON LABOR AND HUMAN RESOURCES
MARCH 24, 1981

Mr. Chairman and Committee members, I am Waldo Macey, Vice Chairman of the National Association of Retail Grocers of the United States (NARGUS) and the owner of Macey's, Inc. in Murray, Utah. NARGUS is a national nonprofit trade association representing local operators of retail food stores, including convenience stores, grocery stores, box stores, warehouse stores, and supermarkets. NARGUS members serve inner city, urban, suburban, and rural communities. NARGUS has approximately 40,000 members in all states of the Union.

Since retailers were first covered as enterprises under the Fair Labor Standards Act in 1961, grocers represented by NARGUS have had a close and continuing interest in the impact of this law.

Comments today focus on S. 348 to increase employment of individuals below age 20.

Recently, NARGUS undertook a survey of retail grocers to evaluate the impact of the minimum wage. The report has been submitted to the Minimum Wage Study Commission and is attached for your reference. The results of the survey to a great extent reflect the impact of the federal minimum wage on consumers, employees, and retail grocers.

Five hundred and fifty retail grocery enterprises operating 2555 food stores responded to the survey. The retail grocers responding employ over 60,000 employees, approximately 52 percent are part-time and 48 percent are full-time.

The retail grocery industry has traditionally been a large employer of teenagers for customer services involving bagging and carrying out groceries. As the minimum wage increased 46 percent in the last four years retail grocers have had to judge whether to retain such employment opportunities. Despite a willingness and desire by retail grocers to train and employ teenagers, the economic realities have decreased teenage employment opportunities in food retailing. Over seventy percent of the retail grocers responding have decreased the number of teenage employment opportunities.

Retail grocers are given as an option to paying the minimum hourly wage or decreasing teenage employment opportunities a limited, inadequate, regulatory nightmare for employing full-time students at 85 percent of the minimum hourly wage. There are approximately 179,000 grocery stores in the United States. According to the U. S. Department of Labor estimates only 3,700 food stores use the full-time student certificates. Approximately 125 of the retail grocers responding to the NARGUS survey use the full-time student certificate.

The restrictions on employing full-time students at 85 percent of the minimum wage require special certification. Any retail grocery employer, including single units and multi-stores, may employ no more than six full-time students at 85 percent of minimum wage without prior Department of Labor authorization. To employ more than six full-time students, applications must be submitted for each store and employment may not commence until approval from the Department of Labor has been received.

A limit of 10 percent of the total monthly hours of all employees is imposed for employers seeking to employ more than six full-time students, unless a higher percentage monthly allowance can be established by historical information. It is difficult for an establishment to have high enough monthly hours for employees to use the 10 percent limitation. For example, it would take 16,000 hours or approximately 100 full-time employees to allow employment of 10 full-time students for 40 hours per week during vacation periods.

The result is that the paperwork and regulatory restrictions eliminate the incentive for retail grocers to even apply to employ full-time students. Retail grocers have curtailed employment opportunities for youth.

Unemployment for teenagers between 16 through 19 years of age was 19 percent in February 1981, or 1,762,000 teenagers. For black and other minority teenagers the unemployment rate was 35 percent, or 335,000. The continuing high youth unemployment rates require Congress' attention and action.

If employment opportunities for teenagers are to be expanded the Congress must act to eliminate the paperwork and redtape. S. 348 is a positive step toward reducing the loss of jobs for teenagers in the retail food industry. S. 348 would permit the employment of teenagers below the age of 20 at 75 percent of the minimum hourly wage for six months. Full-time students could be employed at 75 percent of the minimum hourly wage for no more than 20 hours in any workweek, except during vacation periods.

NARGUS strongly believes the paperwork and redtape must be eliminated in employing full-time students. Any application to the Department of Labor continues the unnecessary paperwork. NARGUS recommends improving S. 348 by eliminating the special certification for full-time students. Compliance and enforcement can be accomplished in the same manner as other aspects of the Fair Labor Standards Act.

The rules of having a letter from the educational institution, restricting employment to no more than 20 hours per week (except during vacation periods), and paying no less than 75 percent of the minimum hourly wage for full-time students can be enforced through normal Department of Labor inspection procedures. The pay records, hours of employment, and other information are already required. The certification application merely impedes employers making use of the program. Concern should focus on creating employment opportunities for youth and not maintaining federal regulatory bureaucracy.

Numerous arguments have been raised against creating a youth opportunity wage for teenagers. I would like to address those arguments today.

first, that a youth differential will result in employers firing older workers and hiring teenagers. As the NARGUS report indicates increases in the minimum wage have decreased employment opportunities in food retailing that have traditionally been available to teenagers. In effect, the teenage job market in food retailing is shrinking or being eliminated. A youth opportunity wage will reverse this trend. As a retail grocer I'm not going to hire a teenager at low wage to replace a higher paid employee. The key to economic survival in the retail food industry is productivity. It makes no sense to fire a productive employee in a position of responsibility and hire an employee with little or no experience. Besides, if the argument held true, employers today would be firing employees earning above the minimum wage by the thousands and replacing them with individuals at the minimum wage level. No study of the federal minimum wage that I am aware of has ever raised the subject as a critical practice. Certainly, the Congress has not been overcome with cries to take action

From an employee relations point of view an employer who engaged in such a practice would jeopardize employee morale and certainly gain an unfavorable reputation in the minds of prospective employees.

The basis of the youth opportunity wage is to provide entry level jobs for teenagers. As experience is gained those individuals ought to have the same opportunity for advancement on merit as other employees. Firing teenagers to replace experienced managers, clerks, stockers, and other employees in retail food stores does not make economic sense. However, providing a youth opportunity wage offers an incentive to retail grocers to maintain and expand youth employment opportunities.

- 6 -

Another argument against the youth opportunity wage is that employers will fire teenagers and replace them with new teenagers at the youth opportunity wage level. As mentioned earlier, training of store personnel is an investment by the employer in the employee for the betterment of the business. It takes time and money to train new employees. Little, if any, savings would result from continually replacing employees. One of the best assets a retail grocer can have is a stable reliable workforce.

S. 348 would subject an employer to severe penalties for engaging in a pattern or practice of substituting youth workers earning the youth opportunity wage for older workers earning at least the minimum wage, or terminating youth employees and employing other youth employees in order to gain continual advantage of the youth opportunity wage. Employers would not only be subject to backpay penalties, but to fines up to \$2,500 for the first offense and up to \$10,000 for subsequent offenses. The penalties provided are a strong deterrent to employer abuse of the youth opportunity wage.

CONCLUSION

The youth opportunity wage offers employers an incentive to maintain and develop employment for youth. Continuing and persistent high unemployment of America's youth denies a vital public sector work experience. The advancement of our nation's productivity requires a commitment to providing teenagers the responsibilities and benefits of employment. NARGUS supports the youth opportunity wage and will work toward accomplishing the goal of expanding teenage employment. On behalf of NARGUS, I wish to thank the committee for this opportunity to testify in support of the youth opportunity wage.

Federal Minimum Wage:
Impact on Consumers, Employers and Retail Grocers

A Report by
The NATIONAL ASSOCIATION of RETAIL
GROCERS of the UNITED STATES

JANUARY 1981

PROLOGUE

This report conducted by the National Association of Retail Grocers of the United States (NARGUS) is based on a survey of NARGUS retail grocer members in the Fall of 1980. NARGUS conducted the survey in response to requests for public comment by the Minimum Wage Study Commission on the effects of the Fair Labor Standards Act of 1938. In addition, a \$4.00 an hour federal minimum was advocated in the fall of 1980. This report contains written comments of retail grocers as well as analysis of responses to questions.

NARGUS wishes to extend appreciation to the retail grocers from all over the United States who took the time from busy retail grocery business schedules to participate. Without the participation of interested retail grocers this report would not be possible.

NARGUS is a national nonprofit trade association representing owners and operators of local retail grocery stores. NARGUS members operate a wide variety of stores, including convenience stores, grocery stores, box stores, warehouse stores, and supermarkets. Service is provided by NARGUS members in the inner city, urban, suburban, and rural areas. NARGUS and its 35 affiliated state and local associations represent approximately 40,000 retail grocers in the United States.

FAIR LABOR STANDARDS ACT OF 1938

The federal minimum wage law has been in effect for over four decades. Prior to 1961 employee coverage was based on job relatedness to interstate commerce. In 1961 retail enterprises with annual sales of \$1 million or more had all employees covered under the federal minimum wage law. By 1969 and through July 1, 1978 the retail enterprise coverage test was lowered to \$250,000. Today the annual sales figure is \$325,000. Because food retailing is a high volume and turnover business even a single convenience store enterprise may not be exempt today. The result is retail grocers are directly impacted by the federal minimum wage law.

SURVEY RESPONDENTS

Five hundred and fifty retail grocers operating approximately 2555 food stores responded to the NARGUS inquiry. Sixty-one percent have one store, eighty-eight percent have five stores or less and ninety percent have ten or less stores.

Employment of the 550 retail grocers covers over 60,000 employees. Approximately fifty-two percent of the employees are part-time and forty-eight percent are full-time.

EFFECT OF FEDERAL MINIMUM WAGE

The NARGUS survey requested retail grocers' reactions to federal minimum wage increases for 1980 from \$2.90 to \$3.10 an hour, for 1981 from \$3.10 to \$3.35 an hour, and for proposed \$4.00 an hour minimum wage. The responses indicate retail grocers attempt to adjust to the federal law and the impact on employment, prices, and store operations.

"A standard of living cannot be legislated by government nor negotiated by union contract. An increase in rate per hour without an increase in production forces the employer to find some way to offset the increase — whether it is through mechanization, different hiring policies and organizational structures, passing the increased expense along to the customer, or a combination of these things. While the purpose of increasing the minimum wage, I suppose, is to help the wage earner cope with inflation, it is, in actuality, a major cause of it."

— *Texas Retail Grocer*

"Our labor cost has increased from the last several years. I am comparing a percent to sales. Each time the minimum wage is increased, it has a rippling effect throughout all departments. As an increased cost in doing business, this has to be passed on to the consumer. If the minimum wage gets too high or any higher, we will discontinue some of the services such as courtesy boys, thereby reducing our labor cost, and thereby eliminating employment for teenagers."

— *Wisconsin Retail Grocer*

WHAT IS THE EFFECT ON CONSUMER PRICES?

In 1980, eighty-four percent of the retail grocers increased prices because of the federal minimum wage increase from \$2.90 to \$3.10 an hour. For 1981, seventy-one percent are projecting price increases as a result of the federal minimum wage increase to \$3.35 an hour. Seventy-one percent would also increase consumer prices in the event of an increase to \$4.00 an hour. When asked what the average price increase would be if the federal minimum wage was raised to \$4.00, a mean average 5 percent price increase was indicated by approximately sixty percent of the retail grocers. Over one-half of the retail grocers estimating a price increase answered between one to three percent.

For consumers, it is important to note that of the retail grocers not predicting a price increase, a significant number would make a later determination based on competitive conditions. Competition in a particular market could force retail grocers to absorb some increased labor costs. In such instances, the result is lower margins for retail grocers' operations. Retail grocers would evaluate other alternatives such as labor reductions, reduced services, or possibly business cessation.

"There is no such thing as a free lunch; somebody, usually the consumer, pays for it all."

— *Pennsylvania Retail Grocer*

"These increases in minimum wage are passed on though the entire retail system, and are a large log on the growing inflationary fire."

— *Illinois Retail Grocer*

"We will raise prices when wages go to \$3.35 per hour. Maybe 3 to 5%?"

"If minimum wage reaches \$4.00 per hour in 1981, I would expect prices to raise 10% more or less. The percentage no doubt will change when we get into this thing."

— *West Virginia Retail Grocer*

"We made our biggest adjustment in 1978 in reducing work force and using more part-time help because of the increase in minimum. We have our forces down to a minimum now, we will have to raise prices."

— *Connecticut Retail Grocer*

"When minimum wage is increased, prices are raised, the consumer pays for the increase, the consumer is also an employee."

— *Texas Retail Grocer*

"Since our margin of profit after expenses is so low — .50% to 1% due to very aggressive competition, every time we are forced to raise our minimum wage base we suffer an even lower net profit. We are becoming very frustrated."

— *Idaho Retail Grocer*

"The minimum wage increase is really putting the hurt on. Because of competition we are unable to do much in the way of increasing prices. So we will have to cut hours and may lay some employees off."

— *Minnesota Retail Grocer*

"With labor costs already $\frac{2}{3}$ of our cost of doing business, an increase of 30% in our lowest wage scale would increase our cost of doing business at least 25% in spite of any effort to reduce hours."

— *Iowa Retail Grocer*

"In our 6 stores we use approximately 4050 manhours per week, an increase of 25 cents due in 1981 will cost our company approximately \$53,000 this coming year. This increase must be passed on to the consumer by higher grocery prices, if we are to stay in business."

— *Indiana Retail Grocer*

"The retailer is caught in a three way squeeze: 1. In an era of the shrinking value of the dollar the public, in order to make ends meet, reduces its consumption of goods and services. The consumer finds that a product or service that was a necessity last month can be done without this month. He also becomes much more price conscious . . .

"The retailer cannot simply raise the price of his goods in order to cover his rising expenses. In fact, in a tight money, price conscious market he finds that his profit margin is shrinking. He is also faced with tying up more and more of his capital in order to stay in stock. He must pay income taxes on inflation. He is faced with a higher and higher payroll whether or not there is an increase in production."

— *Texas Retail Grocer*

WHAT IS EFFECT ON EMPLOYMENT?

In 1980, approximately seventy-five percent of the retail grocers indicated they reduced the number of hours employees worked because of the federal minimum wage increase to \$3.10 an hour. Close to eighty percent plan to reduce the number of hours employees work in 1981 due to the increase to \$3.35 an hour. Ninety percent would reduce the number of employee hours worked if the federal minimum wage was increased to \$4.00.

"In the last 15 months, we have eliminated over 400 man hours per week at both of our stores. Labor productivity has become our number one priority. I expect to eliminate more hours next year, even if I have to reduce services to do it."

— *Tennessee Retail Grocer*

"I have a super market in the inner city, where there is a large percentage of teenagers, which I need to employ. But because of the increase of high minimum wage, I was forced to lay off 3 kids and cut back on full time hours."

— *Connecticut Retail Grocer*

"It is sad to see the number of young capable people who have been priced out of the job market. The ripple effect on the other employees of higher wages and seniority is costly to consumers as well as the employees' available working hours."

— *Utah Retail Grocer*

"Students have always been a major part of our retail grocery business. Each time minimum wage goes up we hire fewer students . . . However, I miss not being able to influence young people toward work attitudes that are life lasting and healthy for students."

— *Nebraska Retail Grocer*

"If minimum goes to \$3.70 or \$4.00 we will eliminate all teenage (school) help!! We have already reduced the teenage force because of minimum wages in effect."

"Service to customers will suffer as a result and will take away a tool we have to help compete with chain stores."

— *Oregon Retail Grocer*

"An increased minimum wage has the effect of reducing the employment of young workers, and less qualified workers. These jobs simply are removed from the scene."

— *Indiana Retail Grocer*

"We have 50 to 60 jobs for teenagers but if the minimum wage gets any higher we will probably make changes in our operation."

— *Colorado Retail Grocer*

"The trend towards part-time employees is both a result and a consequence of the minimum wage increase. As more and more people are forced to seek part-time work as a result of inflation caused by the minimum wage increases, more employers are adding part-timers instead of full-timers because the wage rate is less and fringe benefits are much less."

— *Georgia Retail Grocer*

"We used to have about 18 full time people (now 10) until minimum wage started to take effect. The minimum wage increase has also cost some marginal part-time workers their job."

— *Iowa Retail Grocer*

Overtime hours in 1980 were reduced by 81 percent of the retail grocers and 83 percent expect to do so in 1981. Ninety percent would reduce overtime hours if the federal minimum wage increased to \$4.00 an hour. A number of the retail grocers not expecting to reduce overtime hours indicated policies had already been implemented to allow no overtime or control overtime hours.

Almost sixty percent of the retail grocers indicated staff was reduced in 1980 and expect to do so again in 1981. Eighty percent would reduce staffing if the federal minimum wage was raised to \$4.00.

Over seventy percent of the retail grocers have decreased the number of teenage employment opportunities. Almost seventy percent state minimum wage increases result in use of more part-time employees.

"In January 1980 when minimum wage went to \$3.10/hr. I had to cut my man hours by 20 hours and in the fall I cut the hours again by 22 hours. If the minimum wage goes \$3.35 I will be cutting my man hours again probably by about 20 hours per week."

— *Vermont Retail Grocer*

"We will not have overtime situations because of the high cost of labor."

— *California Retail Grocer*

"2 yrs. ago we had 16 bag boys; 1 yr. ago we had 12 bag boys; then 9 mos. ago we had 8 bag boys. All because of minimum wage rates we will go to 6 next year."

— *Louisiana Retail Grocer*

"The majority of minimum wage earners we have are bag boys. We will monitor their hours closely. We have always had good service at the checkouts with our baggers. If it goes to \$4.00 an hour the customers might not get the good service they had for the last 20 years."

— *Michigan Retail Grocer*

"The minimum wage increase decreases the opportunities for young people to get part-time jobs. We used to have Bag Boys & Carryout Boys but we had to cut them out when the cost became prohibitive."

— *Pennsylvania Retail Grocer*

"Pay scales invariably have to go up on everyone — we definitely have to make it up by reducing the total number of employees and it also becomes necessary to raise prices in some way."

— *New Hampshire Retail Grocer*

"Thank you for the opportunity to respond concerning the minimum wage increase. I am continually amazed at our government's lack of business acumen! I honestly believe that our legislators think that all businesses have the same options available to them as the government; that is, to print money to pay off debts or simply raise prices to cover increased costs. When Washington decides to increase the minimum wage, I can't just tell all my elderly customers I'm raising the price of milk and bread and they will just have to stretch their social security checks a little further. Neither can I print money for the payroll. My only option is to reduce man hours.

ARE FULL TIME STUDENT CERTIFICATES USABLE?

Under the present federal minimum wage law a retail grocer enterprise, which may consist of more than one store, may employ only 6 full-time students at no less than 85 percent of the regular minimum wage without prior authorization from the U.S. Department of Labor. However, an application must be submitted to the Department of Labor no later than the start of student employment. If more than six full-time students are desired for employment at no less than 85 percent of the regular minimum wage rate, the retail grocer enterprise must adhere to complex, strict federal regulations.

Only 23 percent of the retail grocers made use of and employed students under the fulltime student certificates in 1980. The major restriction is the federal regulatory burden.

"I do not like to use teenagers at 85% of minimum wage because of the regulations involved . . ."

— *Arkansas Retail Grocer*

"I attempted to get a certificate to work teenagers at subminimum wage. I had the wage and hour people investigate me because you can only work a percentage of your hourly people at this rate. We need a special rate for teenagers."

— *Idaho Retail Grocer*

"Too many requirements for working teenagers. Would use more if not for all the extra paperwork required by gov't."

— *Florida Retail Grocer*

"I believe that a special provision should be made for teens 14/16 one wage; 16/18 a higher wage; 18 over minimum hourly wage."

— *New York Retail Grocer*

IS THERE A RIPPLE EFFECT TO MINIMUM WAGE INCREASES?

Eighty-seven percent of the retail grocers find it necessary to increase higher paid employees when employees' minimum wage is increased. This is commonly referred to as the "Ripple Effect."

"The minimum wage has a very grave effect on our higher paid people. We must raise them as much or more than the increase in minimum wage and has forced us to raise prices every time."

— *Wisconsin Retail Grocer*

"When paying minimum wage to inexperienced help, I find it necessary to increase pay of my regular workers. This is where the big expense comes in. It pyramids."

— *Connecticut Retail Grocer*

"Our problem with increasing minimum wage is the fact that we are pressured into increasing higher paid employees' wage. They think we 'owe' them a cost of living raise equivalent to minimum wage hike — then they want to talk about a raise."

— *Kansas Retail Grocer*

"The increase in higher paid employees is the most costly part. They insist on same percentage minimum goes up, plus cost of living based on CPI, then merit and seniority raises."

— *New Hampshire Retail Grocer*

"I believe the minimum wage is the most inflationary issue we have. If we increase the \$3 people we have to increase the \$4 people. So it goes right on up the ladder 5-6-7-8-9-10 and up."

— *Texas Retail Grocer*

WHAT IS EFFECT ON RETAIL GROCERY OPERATIONS?

Retail grocers appear most reluctant to make any changes in operating hours, mainly due to competitive considerations. Only eighteen percent reduced operating hours in 1980. Twenty percent of the retail grocers would expect to reduce operating hours in 1981 and forty-three percent would consider it if the federal minimum wage was increased to \$4.00 an hour.

Approximately sixty percent of the retail grocers have or are considering adding equipment to help cope with minimum wage increases. Alternatives include electronic cash registers, scanning cash registers, and other mechanical equipment which would increase productivity and efficiency.

Finally, some retail grocers indicated that future minimum wage increases may jeopardize their business viability.

"We have installed new electronic registers."

— *Michigan Retail Grocer*

"If the minimum wage keeps going up it will force more unemployment and will force more supermarkets out of business that are doing less than \$2 million per year."

— *Florida Retail Grocer*

"The other alternative to maintain level prices would be to eliminate that service which is provided by the employees covered by the minimum wage. In our industry this means eliminating carryout service."

— *Montana Retail Grocer*

FINDINGS AND CONCLUSIONS

The federal minimum wage is having an inflationary impact on the prices consumers pay in retail food stores, adversely affecting employment opportunities in retail food stores, especially for teenagers, and squeezing viable local retail grocer operations.

Consumer Prices

Consumer prices in retail food stores were increased in 1980, according to eighty-four percent of the retail grocers responding, due to federal minimum wage increases. The federal minimum wage was a factor in the 1980 food price increases of approximately ten percent. Seventy-one percent of the retail grocers will factor the required minimum wage increases into food prices for 1981. The ripple effect of having to increase higher paid employees' wages adds to the pressure on food prices. The direct effect according to sixty percent of the retail grocers would be a 5 percent increase in retail grocery store prices if the federal minimum wage was raised to \$4.00 an hour.

Employment

On the employment side, retail grocers have been curtailing man-hours to cope with recent federal minimum wage increases. Approximately eighty percent expect to reduce the number of hours employees work in 1981. Almost sixty percent have been reducing staff. Over seventy percent of the retail grocers have decreased teenage employment opportunities.

The federal minimum wage increases are creating an employment dilemma in the retail grocery industry. Legislators increase the federal minimum wage to improve minimum wage employees' standard of living. However, in low profit margin industries like food retailing, local retail grocers are squeezed by the higher operating costs. In order to remain competitive retail grocers react by trimming man hours, controlling or eliminating overtime, and reducing staff. The result is some employees have experienced reduced work time and loss of employment opportunities. Beneficiaries of those losing full-time employment appear to be women and others seeking to supplement family income during these inflationary times.

The retail grocery industry has traditionally been a large employer of teenagers for such customer services as bagging and carrying out groceries. As the minimum wage increases, 46 percent in the last four years, retail grocers are forced to judge whether the employment opportunities are economically justified. Over seventy percent have reduced these teenage job opportunities. Despite a willingness and desire by retail grocers to train and employ teenagers, the economic realities have made such ventures too expensive.

The present full-time student certificates, permitting employers to employ full-time students at no less than 85 percent of the regular minimum wage rate, offers no relief to the problem. Less than one in four of the retail grocers responding uses the program because of the federal paperwork and regulations. Retail grocers must complete U.S. Department of Labor applications. Legal and other expert advice is likely required to determine whether a retail enterprise may employ more than six full-time students.

Employers desiring to employ more than six may apply for full-time student certificates for no more than ten percent of total hours of all employees during any month. The difficulty is that the bagging and carrying service is not likely to be a strict 10 percent ratio in retail grocery stores. The retail grocer must track the hours to be sure full-time student employment does not exceed ten percent. If it does, the full-time student must be paid at least the federal minimum hourly wage. The result is the retail grocer is in the awkward position of having to pay the same employee two different wage rates. In addition, the same problem occurs because full-time students may not be employed during a school week for more than 20 hours at no less than 85 percent of the regular minimum wage rate.

If the retail grocer enterprise desires to employ more than six full-time students and over 10 percent of the total monthly hours, the retail grocer must have past records to make application, in some cases dating back to before 1974.

Efforts must be undertaken administratively and/or legislatively to improve the employment opportunities for teenagers. A national policy that economically continues to close the employment door to teenagers will create a generation without work experience. At some point an individual must learn the responsibilities and benefits of employment, such as punctuality, performance according to management directions, courtesy, and dependability. Benefits not only include remuneration, but experience, improved image of self-worth, and the desire to advance. Delaying the opportunities for teenage individuals to become a productive segment of society poses a substantial disadvantage for adult employment opportunities.

Retail Grocery Store Operations

Fewer retail grocers, only 18 percent, have reduced operating hours because of federal minimum wage increases. Maintaining operating hours is a necessary competitive tool essential to retail grocers maintaining sales and their competitive position in the marketplace. Primarily, emphasis appears to focus on adjusting employment and prices in response to federal minimum wage increases.

Local retail grocers historically have featured service as a competitive tool against large national retail food chains. Personalized customer service has included bagging, carrying out, and loading groceries. In response to increased federal minimum wages, retail grocers have reviewed and sometimes eliminated this customer service. Elimination of bagging and carry out service may impact on the local retail grocers' competitive edge.

Retail grocers are also evaluating more efficient equipment to offset escalating labor costs with increased productivity. Approximately sixty percent of the retail grocers have or will invest in such equipment. For example, electronic cash registers or scanning cash registers are frequently mentioned.

Finally, the most drastic impact on retail grocers is the significant number expressing concern that future federal minimum wage increases could force them out of business. Retail grocers caught in a squeeze of intense price competition and rising federal minimum wages suffer unusually thin profit margins. One retail grocer stated he could get a better return on his investment by selling out and investing in treasury certificates. The result is increased pressure placed on small and medium sized business to survive in this time of highly unstable inflationary economic conditions.

Senator NICKLES. Mr. Stephens, do you have a statement?

Mr. STEPHENS. Yes. I will condense my remarks to what I consider to be the salient points, if I may. First, let me say that I am representing the National Association of Convenience Stores with a membership of over 35,000 stores, and the 2,000-member Texas Retail Grocers Association, of which I am currently president-elect.

I address my comments that are written from four points of view. I would like to skip over two of those to the ones that I feel are really important issues here.

Senator NICKLES. Thank you.

Mr. STEPHENS. The economy is the first one. The second one that I would really like to dwell upon is teenage employment—that subject in general.

The largest segment of unemployed is in the youth age category. Why is this? It is simply because in general, the younger employee is less skilled and less disciplined and therefore less likely to make a positive contribution to the job. Why, then, would an employer hire such a person when one with a higher skill level and perhaps a greater incentive to hold a job can be hired at the same wage? Generally, he will not.

If the teenage wage differential were put into effect, it is certain that many more young people would be given the opportunity to work. Putting more teenagers to work would create a domino effect on other aspects of our society. It would occupy a part of their time in a positive fashion. Social studies indicate that much of our Nation's crime is the direct result of young people having nothing to do in their spare time.

It would give them the opportunity to learn a skill and, with that, the pride of good job performance. It would make potentially better employees of these young people when they reach adulthood because of that youth experience. I daresay that most of us that are over 40 had plenty of teenage work experience and I, for one, feel it was a valuable one for me.

It would teach them the work ethic, the very backbone of this Nation's foundation. It would teach them that they are paid what they are worth according to their productivity, as opposed to being given a wage because it is the law of the land.

It would teach them a sense of responsibility, of learning to crawl before they can walk and having to perform and produce in order to earn a better wage.

My third point was service, and I will skip over that to the fourth and final point: records, regulations and paperwork. Another of President Reagan's primary goals is to reduce the impact of Government-required paperwork and regulations on business and consumers alike. I assure you that the grocery industry is unanimously in support of that position. Do not give the economy a break with reduced wage requirements for teens and then take it away with paperwork and other requirements and regulations that would make it not worth the trouble. Some of these bills call for a maximum of six teenagers to be employed at a subminimum wage by any one employer.

Our member companies range in size from one store having less than six total employees to 6,500 stores employing thousands, and

we are all sizes in between. So, do not give and then take away by using arbitrary quotas.

Senator NICKLES. A couple of comments. Are all convenience stores mandated to be covered by the minimum wage?

Mr. STEPHENS. I believe that is correct. There are some exemptions that are so low that they really do not apply. So, for practical purposes, they are all covered.

Senator NICKLES. You made a statement that I would like to ask you about. It says:

Rather than granting a subminimum wage for a 6-month period, eliminate the time tests. If there are no wage requirements for those 18 years old and under, I can guarantee a major increase in teenage employment and a lessening of the upward pressure caused by wages on prices.

You said you can guarantee an increase in employment. As you probably know, I introduced a bill to exempt persons under the age of 18 from the minimum wage.

Do you see a substantial increase in the number of jobs, or opening the doors on a number of jobs for people in that age category if we did not have the minimum wage requirements?

Mr. STEPHENS. Yes, I do, Senator. I prepared these comments prior to my knowledge of your bill having been filed, and I was especially gratified when I found what the content of your bill was, because that is exactly what I am speaking about.

I realize that the term "guarantee" is rather strong. Yet, I say that from my own point of view and from talking to many, many colleagues in the grocery industry who say simply that they have quit hiring teenagers because when they can hire an adult for the same wage, they are not going to hire the teenager. Yet, as a result of not hiring the teenager, they have eliminated many of the jobs that a teenager could do and do very well—the bottle function, the cleanup, and this sort of thing.

Senator NICKLES. You mentioned the bottle function. Do you think a lot of those jobs have disappeared? Do you think the bag boy jobs, the filling station jobs, and the window washing jobs—and I used to do some of those myself—have disappeared because of the minimum wage?

Mr. STEPHENS. I very definitely do. I think that is one of the primary causes of the self-service society that we find ourselves in now.

Senator NICKLES. I will ask this question to both of you. Do you see in your own companies or other companies in your industries that any one person working for a wage at or above the minimum would be displaced by a 16- or 17-year-old who would work for \$2.75?

Do you see, across the country, people being laid off and replaced with people making \$2.75?

Mr. MACEY. Not in our industry; I do not feel that that would be the case.

Senator NICKLES. Do you think, basically, it would be a net increase in jobs? That is what we are talking about. We are not talking about moving people out of jobs; we are talking about opening up doors on jobs that basically have been priced out of the marketplace.

Mr. STEPHENS. That is my feeling. I do not feel that there would be any displacement at all in our industry. We do not really need minimum wage employees in our business. As Waldo made the comment a little earlier, we work them into a job level and as their skills improve rather rapidly because of the relatively low skill level required, they are moved forward in pay scale and in job position.

Senator NICKLES. Making wages greater than the minimum wage?

Mr. STEPHENS. Yes. So, if we had the opportunity to employ teenagers at below the minimum wage level, we would not be laying off our better, proven employees by any means.

Senator NICKLES. OK. One further question, Mr. Stephens. You mentioned the bureaucratic mangling of the student application that has to be filed. Do many people in your industry use that because of the problem that ensues?

Mr. STEPHENS. No. As a matter of fact, it is sort of like a plum being given and then taken away. I do not know of many folks in our industry—we do not, for example, use that particular opportunity.

Senator NICKLES. Because of the——

Mr. STEPHENS. Because of the paperwork.

Senator NICKLES. And the need to file for an application?

Mr. STEPHENS. Many times, these students and these younger people are short-term employees to begin with, and their term of employment may be over before the paperwork could be processed.

Senator NICKLES. I wish to thank both of you. Both of you have traveled a considerable distance and, for that, we appreciate your testimony. Your testimony and the testimony of other individuals will be entered into the record.

As you can tell, there is a considerable amount of interest in this subject on the Hill. I might explain further that there are other meetings on the Hill. We have a fairly important bill before the Congress that we will be considering this afternoon. Also, we will have two sessions by both minority and majority parties to discuss those bills. That is the reason for the absence of the members.

Mr. MACEY. Senator, if the new administration can get the economy of this country going and I can afford to build a new store, I can hire another 65 or 70 people. That is the other end of the thing.

Senator NICKLES. Good comment. Thank you very much.

[The prepared statement of Mr. Stephens follows:]

STATEMENT OF F. L. STEPHENS

ON BEHALF OF

THE NATIONAL ASSOCIATION

OF CONVENIENCE STORES

YOUTH OPPORTUNITY

MINIMUM WAGE

SENATE LABOR AND HUMAN RESOURCES COMMITTEE

SUBCOMMITTEE ON LABOR

March 24, 1981

My name is F.L. Stephens, President of Town & Country Food Stores, Inc., a 67 unit Convenience Store Company headquartered in San Angelo, Texas. I am here representing not only my own company, but also the National Association of Convenience Stores (NACS) with membership of over 35,000 convenience stores, and the 2,000 member Texas Retail Grocers Association (TRGA) of which I am President-Elect.

I would like to address my comments to a broader concept of sub-minimum wage for teen-agers than that proposed in S.348. My remarks will deal with the subject from four points of view:

1. The Economy- Everyone from President Reagan down has identified the economy in general, and inflation in particular as our nation's number one problem. With the cost of labor amounting to more than 50% of our industry's cost of doing business, it must be recognized that the level of wages paid has a direct and dramatic impact on the price of food. As recently as January 1, 1981, with the minimum wage increasing to \$3.35 per hour, overall labor costs increased as did the price of our merchandise accordingly. While the concept of raising minimum wage earners salaries is good in theory, the resulting increase in the price of goods and services leaves the recently- raised minimum wage earner where he was before the upward spiral occurred.

The concept of a sub-minimum wage for teenagers is imminently reasonable in that any step that is taken to hold down the costs of doing business will impact prices similarly. The competitive nature of the grocery industry is such that general industry cost reductions will be passed along to the consumer in order for each merchant to stay competitive with the other.

Rather than passing a bill reducing the wage for teen-agers to 75% of the minimum wage, I would propose to eliminate all regulations governing youth

wages. Rather than granting a sub-minimum wage for a six-month period, eliminate the time test. If there were no wage requirements for those 18 years old and under, I can guarantee both a major increase in teen age employment and a lessening of the upward pressure caused by wages on prices.

2. Teen-Age Employment- The largest segment of unemployed is in the youth age category. Why is this? It is simply because in general, the younger employee is less skilled and less disciplined, and therefore less likely to make a positive contribution to the job. Why then, would an employer hire such a person when one with a higher skill level and perhaps a greater incentive to hold a job can be hired at the same wage? Generally, he will not.

If the teen-age wage differential were put into effect it is certain that many more young people would be given the opportunity to work. Putting more teen-agers to work would create a domino-effect on other aspects of our society.

a. It would occupy a part of their time in a positive fashion. Social studies indicate that much of our nations' crime is the direct result of young people having nothing to do in their spare time.

b. It would give them the opportunity to learn a skill, and with that the pride of a good job-performance. It would make potentially better employees of these young people when they reach adulthood because of that youth experience. I dare say that most of us that are over 40 had plenty of teen-age work experience, and I for one feel it was a valuable experience for me.

c. It would teach them the work ethic, the very backbone of this nations' foundation. It would teach them that they are paid what they are worth according to their productivity, as opposed to being given a wage because it is the law of the land.

d. It would teach them a sense of responsibility, of learning to crawl before they can walk, and having to perform and produce in order to earn a better wage.

3. "Service"- The degree of assistance offered shoppers today is far less than it was just a few years ago. This is true in the grocery industry as well as in

most labor-intensive businesses. "Service" will continue to shrink as wages continue to climb.

So many jobs can be performed by teen-agers; jobs that do not require a high skill level. But increasingly, those jobs are being phased out, and the customer in addition to paying higher prices is also having to do more of the work.

Just in the grocery industry itself, baggers, bottle handlers, stockers, clean-up crews and other jobs could be done with unskilled teen labor, if the cost of hiring them weren't prohibitive. As it is, those jobs are gradually phased out, and either the adult work force does it, raising the cost to the consumer, automation handles it, or customers do more themselves.

4. Records/Regulations/Paperwork- Another of President Reagan's primary goals is to reduce the impact of government required paperwork and regulations on business and consumers alike. I assure you the grocery industry is unanimously in support of that position. Don't give the economy a break with reduced wage requirements for teens, then take it away with paperwork, and other requirements and regulations that would make it not worth the trouble. S.348 calls for a maximum of six teen agers to be employed at a sub-minimum wage by any one employer.

Our member companies range in size from one store having less than six total employees, to sixty-five hundred stores employing thousands, and we are all sizes in between. So don't give, and then take away by using arbitrary quotas.

In closing, I feel that my company is fairly representative of the industry. At one time, when we were exempt from provisions of the Fair Labor Standards Act we employed many teen-agers, 16-17 years old. On the average, we employed one in that age category per store. As it is now, we hire very few if any that are under eighteen. While current law permits hiring students under certain conditions at 85% of the minimum wage, we do not do this at all. The savings that is realized is just not worth the trouble of the red-tape that is required.

This sub-committee and the Congress could take a large step toward restoring the Free Enterprise System by passing a meaningful, unencumbered youth wage differential bill.

Senator NICKLES. For our next panel, we have Michael Tiner, the assistant director of governmental affairs for the United Food and Commercial Workers International Union; Jacob Sheinkman, who is secretary-treasurer of the Amalgamated Clothing and Textile Workers Union; and John Sweeney, who is president of the Service Workers International Union.

Who is Mr. Tiner?

Mr. TINER. Here.

Senator NICKLES. Mr. Sheinkman?

Mr. SHEINKMAN. I am Mr. Sheinkman.

Senator NICKLES. And Mr. Sweeney?

Mr. SWEENEY. Yes.

STATEMENT OF MICHAEL TINER, ASSISTANT DIRECTOR, GOVERNMENT AFFAIRS, UNITED FOOD AND CHEMICAL WORKERS INTERNATIONAL UNION; JACOB SHEINKMAN, SECRETARY-TREASURER, AMALGAMATED CLOTHING AND TEXTILE WORKERS UNION, ACCOMPANIED BY ELIZABETH SMITH, LEGISLATIVE REPRESENTATIVE, AMALGAMATED CLOTHING AND TEXTILE WORKERS UNION; AND JOHN SWEENEY, PRESIDENT, SERVICE EMPLOYEES INTERNATIONAL UNION, ACCOMPANIED BY RICHARD MURPHY, LEGISLATIVE REPRESENTATIVE, SERVICE EMPLOYEES INTERNATIONAL UNION, A PANEL

Senator NICKLES. Mr. Sweeney, where are you from?

Mr. SWEENEY. Service Employees International Union.

Senator NICKLES. Where is that located?

Mr. SWEENEY. Here in Washington.

Senator NICKLES. In Washington, D.C.

And Mr. Sheinkman?

Mr. SHEINKMAN. I am with the Amalgamated Clothing and Textile Workers Union located in New York City.

Senator NICKLES. In New York City. We appreciate your presence today.

And Mr. Tiner, you are from—

Mr. TINER. Well, the International is located in Washington. I am originally from Oklahoma.

Senator NICKLES. Well, welcome; great. You are now located in Washington, D.C.?

Mr. TINER. Yes.

Senator NICKLES. Gentlemen, I have read your statements with interest. If all of you would make some brief comments, I will ask you questions individually or as a group at the conclusion of your statements. I hope we can make them very brief because I hate to have other individuals who have traveled a long distance not have a chance to appear before the committee.

Mr. Tiner, would you care to go first? That is the order I have.

Mr. TINER. OK. The three bills before us today seek to lower the wage established by the Fair Labor Standards Act over 53 years ago. The UFCW is opposed to all three. We share the committee's concern about the economic well-being of America's young workers. However, our concern does not manifest itself in a low-wage solution.

Senator NICKLES. Could you pull your microphone up just a tad, please?

Mr. TINER. Ostensibly, the major reason for enacting a youth subminimum is to relieve the problem of teenage unemployment. The UFCW rejects the notion that the way to increase employment is to decrease wages. It is our opinion that the answer to the question of increased employment can best be found in a strong and healthy economy, not by discriminating in a wage structure.

Our concern is not specifically that there will be a lot of substitution of older workers by teenage subminimum workers. We have concern that any substitution will occur. The only real result, besides forcing teenage unemployment into a different age bracket, will be to create a pool of highly exploitable young workers.

Although S. 348 seeks to allay our concern by prohibiting the substitution of adult minimum wage workers by subminimum teenagers and restricts that to the first 180 days of employment, it also deletes any certification process for subminimum workers. By eliminating the certification process, it is unlikely that the substitution of workers would be discovered at all unless you had some new form of reporting by the government.

We would point out that there currently exists a youth differential—the student certification program. It has certain restrictions and these restrictions are designed specifically to insure that there is no substitution for older workers. In addition to restricting the number of hours that individuals are allowed to work, it also restricts the total number of students that are allowed to work in a covered establishment.

The provision of S. 348 that provides for the payment of the youth differential for 180 days ignores not only the nature of minimum wage jobs, but the nature of teenage employment as well. According to Labor Department statistics, at any given moment, less than 50 percent of the employed teenagers are in their jobs longer than the 180-day probation period. This virtually guarantees that half of the current teenage jobs will never pay more than 75 percent of the minimum wage.

We urge this committee to turn its attention to legislation increasing the minimum wage. Approving the proposed cuts in the very programs that are designed to help the working poor while failing an opportunity to increase minimum wage earners' ability to work for a wage that insures the maintenance of a minimum standard of living, we believe is unconscionable, Senator.

Senator NICKLES. Thank you, Mr. Tiner.

[The prepared statement of Mr. Tiner follows:]

STATEMENT OF MICHAEL TINER
ASSISTANT DIRECTOR OF GOVERNMENT AFFAIRS
UNITED FOOD & COMMERCIAL WORKERS INTERNATIONAL UNION
BEFORE THE
SUBCOMMITTEE ON LABOR
OF THE
SENATE LABOR AND HUMAN RESOURCES COMMITTEE

MARCH 24, 1981

My name is Michael Tiner. I am the Assistant Director of Government Affairs for the United Food & Commercial Workers International Union (AFL-CIO).

The UFCW is the result of the recent merger of the Amalgamated Meat Cutters and Butcher Workmen (AFL-CIO) and the Retail Clerks International Union (AFL-CIO). The UFCW has some 1.3 million members organized in 700 local unions throughout the United States and Canada.

The UFCW and its local unions have contracts with tens of thousands of employers throughout the food processing, retail sales, leather, health, commercial, shoe manufacturing, fur and other industries.

In any study of the Fair Labor Standards Act, it is helpful to review the reasons for the passage of the original Fair Labor Standards Act:

Sec. 2. (a) The Congress hereby finds that the existence, in industries engaged in commerce or in the production of goods for commerce, of labor conditions detrimental to the maintenance of the minimum standard of living necessary for health, efficiency, and general well-being of workers (1) causes

commerce and the channels and instrumentalities of commerce to be used to spread and perpetuate such labor conditions among the workers of the several States; (2) burdens commerce and the free flow of goods in commerce; (3) constitutes an unfair method of competition in commerce; (4) leads to labor disputes burdening and obstructing commerce and the free flow of goods in commerce; and (5) interferes with the orderly and fair marketing of goods in commerce.

The reasons for the enactment of the original Fair Labor Standards Act remain as valid today as they were 53 years ago. Even a cursory reading of the Fair Labor Standards Act will reveal that Congressional intent was to establish a "minimum" standard or a wage floor.

S. 348, 430 and 658 seek to lower that wage floor for an entire class of workers. All three bills, in varying degrees, attempt to establish a sub-minimum wage for teenagers.

The UFCW is opposed to the establishment of a sub-minimum wage. It should be noted that, though our opposition to the youth differential is longstanding, it is not motivated by any selfish interest. The vast majority of our members are unaffected by changes in the minimum wage. While the UFCW is opposed to the various proposals for a youth sub-minimum wage, we share the Committee's concern about the economic well-being of America's young workers. However, our concern does not manifest itself in a low-wage solution.

Ostensibly, the major reason for enacting a youth sub-minimum is to relieve the problem of high teenage unemployment. The UFCW rejects the notion that the way to increase employment is to decrease wages. It is our considered opinion that the answer to the question of increased employment can best be found in a strong and healthy economy --not discrimination in the wage structure.

We find it interesting to note that those industries who clamor loudest of a youth sub-minimum as a solution for high unemployment are also those who are most likely to benefit from its enactment.

Both proponents and opponents have economic studies to bolster their respective positions. Virtually all studies agree that there will be some replacement of adult workers by teenage sub-minimum workers. The disagreement is over how much substitution will occur.

Our concern is not how much substitution will occur but that any substitution occurs. The only real result besides forcing teenage unemployment into a different age bracket will be to create, among younger workers, a pool of highly exploitable low wage workers.

Though our position is not without economic justification, we are philosophically opposed to wage discrimination in any form. No worker, young or old, should be required to exchange their labor for a wage less than the minimum wage.

Although S. 348 seeks to allay our concern by prohibiting the substitution of adult minimum wage workers by sub-minimum teenagers and restricting the differential wage to the first 180 days of employment, it also deletes any certification process for sub-minimum workers. By eliminating the certification process, it is unlikely that substitution of workers would be discovered, absent some new and fairly complicated form of government reporting.

We would point out that there currently exists a program for a youth differential. The Student Certification Program, subject to certain restrictions, allows employers to hire students at a reduced wage.

These restrictions in the Student Certification Program were specifically designed to insure that there would be no substitution for older workers. In addition to restricting the number of hours individuals are allowed to work, the program restricts the percentage of total hours that student participants may work in a covered establishment.

S. 348 reduces the full-time students' sub-minimum wage established by the Student Certification Program from 85 percent to 75 percent. A youth differential gives a teenage worker an advantage over a minimum wage worker. Full-time students who are participating in the Student Certification Program will have whatever advantage they previously enjoyed removed by S. 348.

The provision of S. 348 that provides for the payment of the youth differential for 180 days ignores not only the nature of minimum wage jobs but the nature of teenage employment as well. According to Labor Department statistics, at any given moment, less than 50 percent of the employed teenagers are in their jobs longer than the 180 day probation period. This means that more than one-half ($\frac{1}{2}$) of current teenage jobs would virtually never pay more than 75 percent of the minimum wage. Minimum wage jobs typically require very little expertise or training and frequently have high rates of turnover.

As we stated earlier, we share the Committee's concern for America's young workers. The UFCW believes that these workers, as well as all workers, can best be helped by creating more jobs --not by reducing the minimum wage and pitting one class of worker against another.

In closing, we urge this Committee to turn its attention to legislation increasing the federal minimum wage. Approving the proposed cuts in the very programs designed to help the working poor, while failing an opportunity to increase minimum wage earners' ability to work for a wage that insures the maintenance of a minimum standard of living, is, we believe, unconscionable.

Senator NICKLES. Mr. Sheinkman?

Mr. SHEINKMAN. Senator, appearing with me today is Elizabeth Smith, our legislative representative who has an office here in Washington representing our union.

I am the Secretary-Treasurer of the Amalgamated Clothing and Textile Workers, representing some 450,000 members in almost all of the States, engaged primarily in men's, boys', and children's apparel industries, as well as textile, retail, and service industries as well.

It is our position that the youth subminimum wage will not help create any new jobs for our Nation's young people. In the industries I know best, the only effect it can have on the labor market, as far as we are concerned, is to transfer jobs from older workers to younger members.

Rather than go into detail, there are a couple of points in my testimony I would like to stress. We consider the cut wage rate for teenagers a cut wage for full-time students of any age who work part-time to create jobs for youth. The question we have is, how is this going to come about?

The reasoning was laid out by the remarks of Senator Hatch that he made in the Senate, which you introduced in the record on his behalf in January, and I would like to take some of the basic points he raised and show that the premises under which he is operating are wrong and that the bills that are now under consideration by this committee, at least as of this time, do not meet the problems of youth who are unemployed today.

False premise No 1 is that youth unemployment goes up when the minimum wage goes up. The minimum wage went up this January. The teenage unemployment rate was lower than it was last July. Other examples abound, I am sure.

As far as we are concerned, while you may have a higher rate of youth unemployment, it reflects the economic conditions in which this country finds itself. If there are more people working, there are more youth working. If there are less people working, there are less youth working. When the unemployment rate was somewhere in the range of 4.9 percent, you had a lower number of youth unemployed, and when it is 7.3 percent, you have a higher rate of youth unemployed.

As far as premise No. 2 is concerned—and there was reference to McDonald's and long lines—it has nothing to do with the high cost of employing teenagers. We have a McDonald's near my office and the time you have long lines is when you have people out on a lunch hour. I do not see how they could pack any more youth in there to handle the long lines during that particular time. Where would they put the cut-rate employees, on the roof? If they needed more people, why did they not hire them in the first place?

As far as we are concerned, these fast food chains are not losing any money now, and there is no need to make them richer by hiring youth at a subminimum wage.

False premise number three: youth and older workers compete for different types of jobs. Not in the industries I am acquainted with, and I have been working and involved in these industries for almost 30 years. My union represents retail clerks in general merchandise and men's clothing stores. Walk into any department

store and see who is selling the goods. Side by side, you have young people and older people working in the same kind of work, particularly when you are dealing with small-ticket items where the employees are not involved on commission.

Take a textile mill and take the picture "Norma Rae," which depicted the story of the J. P. Stevens Co. In that picture, you saw mother and daughter working side by side in the mill. If you go into any apparel shop and you watch the sewing machines or the pressing machines, you will see young and old people doing the same kind of work and earning the same amount of rates and the same amount of pay.

False premise number four: extending cut rates beyond the retailing and service industries will create new jobs for youth. Retailing and service industries were the largest employers of 16 and 19-year-olds in 1970, and they certainly are today. In 1970, 38 percent of teenage workers were employed in retail establishments, and 25 percent were employed in service establishments, in which, incidentally, schools and colleges are classified. They were the largest employers because their work schedules accommodate the employment of part-time workers and because the skills required can be picked up in a matter of days. Cut rates will not create part-time jobs in industries that are not prepared to utilize part-time workers. These are seasonal in nature, as you know. In many cases, the Christmas season, the Easter season, and Mother's and Father's Day are the times that part-time casual workers are hired.

The rate has nothing to do with whether they are hired or not; it depends on the amount of traffic, based on my experience, that goes into the store. As far as I am concerned, it will not create any full-time jobs, particularly for those youth that are full-time in the labor market, and I am not talking about students who need part-time employment.

Senator NICKLES. Thank you, Mr. Sheinkman.

[The prepared statement of Mr. Sheinkman follows:]

STATEMENT OF Jacob Sheinkman, Secretary-Treasurer
OF THE AMALGAMATED CLOTHING AND TEXTILE WORKERS UNION

I am appearing here today on behalf of the 455,000 members of the Amalgamated Clothing and Textile Workers Union. Our members work primarily in the men's, boys', and children's apparel industries, in the textile industries, and the nonrubber footwear industries, as well as in the laundry and cleaning industries and in retail trade. They live in almost every state of the nation and in Puerto Rico, as well as in Canada.

The Amalgamated Clothing and Textile Workers Union has had a deep and long-standing interest in federal minimum wage legislation. A predecessor union of ours, the Amalgamated Clothing Workers of America, first advocated a federal wage floor as a major instrument of economic recovery and stability in the depths of the great depression of the 1930's, and played a leading role in the enactment of the Fair Labor Standards Act of 1938. We have been equally active in the periodic efforts to improve the Act to meet current needs, as a matter of positive economic and social policy.

A youth subminimum wage, such as that proposed in S. 348, will not help to create any new jobs for our nation's young people. In the industries I know the best, the only effect it can have on the labor market is to transfer jobs from older workers to younger workers.

This bill does not address itself to the problem of providing jobs for teenagers seeking work. Instead, its only promise is to aggravate the difficulties of adult low-wage earners in securing and retaining jobs. The federal minimum wage is the "safety net" that sustains the living standards of low-wage earners. A youth subminimum could rend it, perhaps beyond repair.

Senate bill 348 does not really target in on the problems of teenage unemployment. Let me review for you some of the facts on the teenage labor force.

Teenage Americans, aged 16-19, are nearly 10 percent of our civilian labor force and have been for some years. Thus, in 1970, they accounted for 8.9 percent of the labor force; in January of this year, they represented 8.0 percent of the total. Historically, their unemployment rate has been nearly three times the rate for all workers. In 1970, when the overall unemployment rate was 4.9 percent, the teenage rate was 15.3 percent. This February, the seasonally adjusted rate for all workers was 7.3 percent; that for teenagers was 19.3 percent.

The business cycle has been as important a determinant of the unemployment rate for teenagers as it has been for workers of all ages. During periods of economic expansion, the rate of teenage unemployment has contracted; in periods of economic decline, it has risen.

The size of the teenage labor force expands abruptly in the summer and declines just as abruptly when school reopens. Last July, for example, the teenage labor force numbered 11.6 million -- against 8.4 million this last January. Yet the unemployment rate for teenagers was lower last July than it was this January.

Teenage job needs change with the season. In the summer, most want full-time work and fit into the standard work schedules of American industry. When schools are in session, most want part-time work, and they flock to jobs in retailing and finance and service industries whose work schedules not only accommodate, but welcome part-time employees.

Within this group, is a hard core of nonwhite youth that cannot find jobs. The unemployment rate for black youth has been above 35 percent in every year of the last six. Today, in the urban ghettos, black unemployed youth outnumber those at work. The unemployment rates for youth of Hispanic origin and other minority groups are also substantially higher than for teenage whites.

Those are some of the facts on teenage employment. Now how would this "Youth Opportunity Wage Act of 1981" address those facts?

Basically, S. 348 is cut-rate wage bill for cut-rate employers. It would permit employers to pay young people, under the age of 20, at 75 percent of the statutory minimum (currently \$3.35) for 180 workdays. That would mean an hourly rate as low as \$2.52, or 83¢ lower than the statutory rate.

In addition, the provisions of the Act that now apply to full-time students, regardless of age, who are employed in retail and service establishments are amended. First, the student rate is cut from 85 percent to 75 percent of the statutory minimum - chopping it 33¢. Secondly, the section no longer applies just to retailing and services -- but is extended to any employer, specifically including institutions of higher education. The limitation on the number of students any employer may employ (namely six), and the number of hours they may work in a week (namely 20), are

retained. In place of having to provide the specifics on the student/nonstudent structure of the employer's workforce, however, the employer is asked only to assure that part-time student workers will not be used to displace full-time workers.

How is a cut-rate wage for teenagers and a cut-rate wage for full-time students of any age who work part-time going to create jobs for youth? The reasoning is laid out in the remarks of Senator Hatch that accompanied the introduction of the bill. I was surprised by the number of false premises that pervade those remarks.

False premise number 1: That youth unemployment goes up when the minimum wage goes up. The minimum wage went up this January -- but the teenage unemployment rate was lower than it was last July. Other examples abound I am sure. Youth unemployment goes up when the economy goes down -- and goes down when the economy is robust and expanding. That's the correct correlation.

False premise number 2: The long lines at McDonald's are due to the high cost of employing teenagers. Well, in the McDonald's near my office, the lines get a little long at the peak of the lunch hour -- but every station that the service counter accommodates, every one of those fancy terminals they have, is manned. Where would they put new cut-rate employees? And, why would they hire them in the first place? These fast food chains aren't losing any money now -- there's no need to make them richer.

False premise number 3: Youth and older workers compete for different types of jobs. Not in the industries I know best. My union represents retail clerks in general merchandise and men's clothing

stores. Walk into any department store -- into any department selling "modest-ticket" items that's not on commission -- and that's most of them; you'll find grandmothers working cheek by jowl with teenagers. Take a textile mill. Did you see the movie Norma Rae? - she worked alongside her mother -- and that was typical, not fictional. Look at any bank of sewing machine operators in a garment plant -- youth and age sit there together like Shuffle-Shoon and Amber-Locks.

You pass this bill and you'll see less of that in the industries I know. These are businesses in which nickels and dimes are fought over -- and this bill proposes an 83¢ differential.

False premise Number 4: That extending cut-rates beyond the retailing and service industries will create new jobs for youth. Retailing and service industries were the largest employers of 16-19 year-olds in 1970, and probably still are. In 1970,¹ 38 percent of teenage workers were employed in retail establishments, and 25 percent were employed in service establishments -- in which, incidentally, schools and colleges are classified. They were the largest employers because their work schedules accommodate the employment of part-time workers, and because the skills required can be picked up in a matter of days. Cut-rates won't create part-time jobs in industries that are not prepared to utilize part-time workers.

Nor will it create new full-time jobs. Certainly it won't in the manufacturing industries I know best. I am talking about the industries that have been -- and still are -- an important source of unskilled, entry level full-time jobs. Without exception they are low wage industries - male apparel, textiles, shoes. Many of the firms are in industry branches

¹ Bureau of the Census, U.S. Department of Commerce, Census of Population, 1970.

for which learner rates have been established. At one time, many firms sought and obtained learner certificates. That is no longer the case. Mind you, the employers in these industries are still interested in cutting their labor costs. But a learner certificate can be issued only when "an adequate supply of experienced workers is not available." Layoffs and plant closings have decimated the labor force in these industries. Unemployed experienced workers are available for work in all too many localities. There is no way that a subminimum can create jobs in industries that are laying off workers, where the work force is shrinking. In other labor markets, jobs go unfilled even when the employer pays above the statutory minimum.

False premise Number 5: That the paperwork involved in obtaining student permits and learner certificates is a bar to youth employment, particularly for small firms. The average size of a garment shop is about 50 workers. Size of plant was no bar to the applications for learner certificates when the apparel business was good. Nor was it a bar to the certification of 500,000 students for employment in retail and service establishments under the present law.

Without that "paperwork," important safeguards addressed to maintaining the ratio of students to nonstudents in an establishment are wiped out. Displacement of experienced workers, full or part-time, won't occur overnight, but it will occur.

Paperwork is at least one aide to catching the cheaters. Investigation is another. In the apparel industries and others, there are marginal, fly-by-night, nonunion firms that hire off-the-books, that seek out illegal immigrants to exploit, that violate the minimum wage and overtime

provisions of the Act. Rooting out, exposing, and prosecuting these employers requires a far larger budget than is usually allocated to the Wage and Hour Division. And, even with an enforcement mechanism, how sad the results are. In 1980, some 28,645 firms were cited for violation of the Act -- that total included a number of apparel firms although I do not have an exact count. Of the total cited, 87 percent agreed to pay up. But only 72 percent of the workers were actually compensated and only 57 percent got the full amount owed.

The premises that are the supporting rationale for S.348 are largely false. It is economic decline, not an increase in the minimum wage, that sends the youth unemployment rate soaring. It won't create new jobs. It won't create full-time jobs in manufacturing industries that are laying off workers. It won't create part-time jobs in industries that are not prepared to utilize part-time workers. It will set in motion an elaborate game of musical chairs in which teenagers get the seats while young adults with families, and older adults with mortgages as well as families, are edged out.

It won't work. It hasn't worked in Canada where a system of statutory youth differential rates is in effect nationwide and, in some provinces, dates back to 1919. In 1970, the U.S. Bureau of Labor Statistics prepared a report on the Canadian experience. Their conclusion is especially relevant because of the many similarities between the culture and economy of Canada and the United States. BLS talked to a lot of people in Canada, but "No one in Canada from whom information was obtained in this study thought that the youth rate system was vital in counteracting youth unemployment..."¹

¹ Bureau of Labor Statistics, U.S. Department of Labor, Youth Employment and Minimum Wages, Bulletin 1657, 1970.

It won't help the segments of the teenage labor force that need help the most. It won't break down the racial and ethnic barriers that now impede the hiring of minority youth. It won't move ghetto youth one whit closer to job openings posted in the suburbs.

This is not a "Youth Opportunity Wage Act." This is an "Employer Opportunity Wage Act," a thinly veiled attempt to drive down the wages of unskilled workers and undo the work of more than 40 years.

Youth unemployment is certainly one of our nation's most devastating economic ills. They need jobs and opportunities to develop good working habits and skills. A cut-rate youth wage is no solution to putting our youth to work. It can not propel us into the economic expansion that would put Americans of all ages back to work. Our nation's young people deserve better of us.

Senator NICKLES. Mr. Sweeney, do you have a brief comment?

Mr. SWEENEY. Yes, Senator. I will try to be brief. I am happy to have the opportunity to appear before the Senate committee today. With me is our legislative representative, Dick Murphy.

On behalf of the more than 650,000 members of the Service Employees International Union, I thank you for the opportunity to talk a little bit about the subminimum wage. SEIU is perhaps uniquely qualified to speak on the subject of the minimum wage. We represent workers in the service industries—health, buildings, offices, and public employees. Workers in these occupations comprise nearly 60 percent of all workers working at or below the minimum wage below. For years, we have fought to bring service workers' wages above the minimum to give our members and their families a decent standard of living.

For SEIU, the minimum wage is not some abstract number, but a vital floor for economic survival. The proposals you are considering today—the so-called youth opportunity minimum wage—distort the fundamental purpose and rationale of the minimum wage. The minimum wage has never been judged, and never should be judged, in terms of prevailing levels of unemployment, whether for youth, the elderly, minorities, or any other group suffering from high rates of unemployment.

If all our members could testify today, a chorus of voices, including teenagers, would plainly and clearly tell you that the subminimum proposals are for the benefit of the minimum wage employers who will reap windfall profits. For workers, the subminimum will pit sons and daughters against fathers and mothers, with no winners.

From long experience of negotiating with minimum wage employers, I can assure you that the proposed differential will result in rapid replacement and displacement of adult workers by teenage, 6-month, subminimum workers. In labor-intensive industries like the service industry where the profit per sales dollar is generally low, employers fight for every penny they can squeeze out of wages and turn into profits. No regulatory apparatus would stem this tide.

The proposed erosion of the minimum wage will also push millions of families into poverty and add to the despair of the working poor, who may well be so discouraged that they turn to welfare, finally admitting that working does not pay.

A few statistics will help illustrate how vulnerable the current minimum wage work force is to threats of subminimum wages. Attached to my statement, I have submitted some tables to you which cover some of the questions that we heard earlier from some of the other Senators on the committee.

Of the nearly 11 million workers at or below the minimum wage, almost 50 percent had total family incomes of less than \$12,000 per year. More than one-third were the sole supporters of their families or living alone. We are not talking about workers picking up some spare change at a second job, or with a second family wage earners. Minimum wage earners depend on their wages for survival.

Congress has already eroded the ability of low-income families to survive by failure to increase the minimum wage along with the cost of living. Today's minimum wage, in real dollars, is almost 9

percent below the 1967 minimum wage. Worse still, full-time minimum wage earners today earn \$1,400 below the official Federal poverty income for a family of four.

Clearly, any teenager willing to work for the proposed subminimum would have to have outside support systems to survive.

Senator NICKLES. Mr. Sweeney, I have some questions I want to ask you and the other gentlemen.

Mr. SWEENEY. Sure.

Senator NICKLES. Your remarks will be in the record totally and completely.

Mr. Sweeney, I will start with you. I was reading one of your statements last night and it hit me on the nose because it affected me. It says, "The other major justification for a subminimum is that it would start teenagers on the road to stable career employment. That is equally absurd. Minimum wage jobs in industries are also low-skill, dead-end jobs in industries."

I would only comment that I had worked for the minimum wage probably 10 or 11 years ago, and maybe my career has gone to a low-skill, dead-end job in industry that I am employed in today.

Mr. SWEENEY. No, Senator; you are the exception.

Senator NICKLES. Thank you.

I will ask this question to Mr. Sheinkman. You mentioned in your statement that you felt there was no correlation between increases in the minimum wage and increases in unemployment.

Mr. SHEINKMAN. That is correct. Not necessarily; that is correct.

Senator NICKLES. I think all of you at various times had indicated that we should increase the minimum wage. Do you think we would have higher employment or lower employment if we had a \$10 minimum wage?

Mr. SHEINKMAN. It depends on how the wage is set. You are talking about a minimum. In light of a \$10 average wage, you are talking about a wage that is higher than the average in most American manufacturing industries. That would not be realistic in terms of a minimum wage.

A minimum is considered as a minimum floor, as far as we are concerned, to provide people with at least some minimum standard on which they can live. As Senator Riegle pointed out, if you take a look at what it brings, particularly to a person supporting a family, that person has a very hard time, particularly when you consider some of the proposals to cut back on food stamps and to cut back on other welfare programs. I do not see how a person can survive.

Senator NICKLES. The reason I asked that question is that if we are using the philosophy that the minimum wage is supposed to accommodate all of society's needs—housing, utilities, health, and so on—I think we would have to come up with a minimum wage of much, much higher proportions than we are talking about.

Mr. SHEINKMAN. We are not talking about an adequate wage, Senator. We are talking about a minimum wage. If you are talking about an adequate wage, obviously \$3.35 or \$3.75, which is what it should be indexed to, is not sufficient. We are not advocating an adequate wage; we are advocating a minimum wage.

Senator NICKLES. Mr. Tiner, your statement basically said that if we had this differential or if we exempted 16- and 17-year-olds from the minimum wage, there would be no—

Mr. TINER. Those jobs for 16- and 17-year-old kids would be gained at the expense of older workers, Senator.

Senator NICKLES. You see no increase in jobs?

Mr. TINER. The number of jobs is finite, Senator.

Senator NICKLES. If we exempted 16- and 17-year-olds from the minimum wage, you do not believe that there would be—

Mr. TINER. We believe that there would be a lot of 16- and 17-year-olds employed, Senator, but they are going to be employed at the expense of older workers. You are not going to get new jobs; you are going to get old jobs.

Senator NICKLES. Do you think there would be no increase in jobs whatsoever? You do not think there are some jobs that economically are not quite worth \$3.35 that would be worth \$2.50?

Mr. TINER. Senator, you are saying they are not quite worth \$3.35. Yet, one of the bills says that after 180 days, they are worth \$3.35. Is it a job that does not require any training that makes it worth the minimum wage? It is a minimum wage job, Senator. You are not creating a job; you are creating a wage.

Senator NICKLES. You think there would be no increase in the wage.

Senator Kennedy, welcome back to the hearings; we are glad to have you back with us. Do you have any questions?

Senator KENNEDY. Thank you.

Senator NICKLES. We are trying to go on about a 5- or 10-minute rule to move along.

Senator KENNEDY. Five or ten?

Senator NICKLES. Yes.

Senator KENNEDY. Well, I want to welcome our distinguished representatives here, and I will certainly look forward to reading through their testimony. As I understand it, they have made the case that there has been no demonstrable evidence to show that there would be an expansion of employment for the teenagers by establishing a subminimum.

I do not think we have had any hard evidence; we have had some theories, but we certainly have not had any strong indications or any solid evidence that that would be the case. I understand that the panel has made the case that the pieces of legislation that we are considering today have virtually no enforcement mechanism. When we do not find even at the present time an adequate enforcement by the Department of Labor on some of the existing pieces of legislation, and we find that there are going to be even additional cut-backs on those personnel, I think we can wonder what kind of assuredness we could give to the older worker that is providing for his or her family. I think that these are certainly questions that remain in my mind.

The subject of this hearing is youth employment, and I think it is important that we not forget the rather constructive and, I think, important and useful and, in many instances, successful programs that are in effect today that are working in trying to deal with youth unemployment.

Although I certainly respect those that feel that this certainly is a constructive approach, the fact remains, even as the Secretary of Labor pointed out, that we do not want to raise false hopes. If we

pass a subminimum wage, we expect the problem of youth unemployment to be responded to.

Now, at an earlier time, I had a chart here which showed that over the period from—it goes back from the mid-1950's up until 1979, actually, and it shows the gradual increase in employment among the white 16- to 24-year-olds; there has been a gradual climb.

During that period of time, how many increases in the minimum wage did we have? I think we had four.

Mr. SHEINKMAN. Since when? We have the figures here.

Senator KENNEDY. Well, I suppose 1960 to 1980.

Mr. SHEINKMAN. Well, if you go from 1961, you had an increase to \$1.15 in 1961; \$1.25 in 1963; \$1.40 in 1967; \$1.60 in 1968; \$2 in 1974; \$2.10 in 1975; \$2.30 in 1976; and then the recent legislation beginning in 1978.

Senator KENNEDY. Well, I would ask, Mr. Chairman, that this chart be made a part of the record. I will just put on the chart the times when the minimum wage has been increased. At least for some of the individuals, it had no effect.

I would just be interested in hearing from the panel how you believe, if you reduce the subminimal, it is going to benefit the other groups in our society, and whether there is any indication that it would benefit the blacks, Hispanics, and others.

Mr. SHEINKMAN. Let me give you one example, if I can, Senator. In the city of New York, we have lost in the last 20 years 200,000 apparel manufacturing jobs. Last year, we lost 40,000 manufacturing jobs in the city of New York. So, you have unemployed experienced older workers and younger workers.

If you put in a youth subminimum, I do not see how you are going to end up providing employment for those people who are on the rolls. I had a person with me who testified before the International Trade Commission. He lost his job; he was a leather cutter. He worked in the trade 30 years and he is 50 years of age. He asked the ITC, "What am I supposed to do, become a doctor at this stage of my life? I cannot get another job. I have one kind of skill." At 50, that worker is washed up on the heap, and that is the basic issue.

Sure, you may end up providing more jobs for young people, but what are you trading off in the process? Right now, in our industries we have a lot of unemployment beyond 7.3 percent in apparel manufacturing alone; plants are closing. We have communities with skilled workers, able and willing to work.

In the city of Buffalo just a couple of months ago, you had 1,000 people line up for 200 jobs at a motel. Those were older people, people with families. So, if you put the youth in there, what happens to those other people?

The basic issue is to get more jobs into the economy, not to trade off one group for another. We think it is deplorable if older people do not have jobs or younger people do not have jobs, whether they are white, black, or whatever is their ethnic background. That, to us, is the simple issue.

Senator KENNEDY. Well, I think that answers my question.

[Laughter and applause.]

Senator NICKLES. Gentlemen, thank you.

[The prepared statement of Mr. Sweeney follows:]

Statements by the Service Employees International Union
Youth Opportunity Minimum Wage
Senate Committee on Labor and Human Resources

March 24, 1981

Submitted by John Sweeney, International President

On behalf of the more than 650,000 members of the Service Employees International Union (SEIU), I thank you for the opportunity to testify here today on proposals for a youth subminimum wage.

SEIU is perhaps uniquely qualified to speak on the subject of the minimum wage. We represent workers in the services industries -- health, buildings, offices, and government employees. Workers in these occupations comprise nearly 60 percent of all workers working at or below the minimum wage today. For years we have fought to bring service workers wages above the minimum to give our members and their families a decent standard of living.

For SEIU the minimum wage is not some abstract number but a vital floor for economic survival. Our members also point to the minimum wage as evidence of the nation's commitment that any one willing to work long

- 2 -

and hard hours should be able to take care of their families without turning to welfare or charity to supplement their income.

The proposals you are considering today -- the so-called "Youth Opportunity Minimum Wage" -- distort the fundamental purpose and rationale of the minimum wage. The minimum wage has never been judged and never should be judged in terms of prevailing levels of unemployment -- whether for youth, the elderly, minorities, or any other group suffering from high rates of unemployment. The minimum is a floor under all wages. The minimum wage is the major support of the work ethic and welfare of American workers. We know from painful experience that starvation wages undermine work values and cause people to lose faith in a country as productive and rich in resources as the United States. The Depression of the 1930's should have at least taught us the lesson that falling wages are as bad for the entire economy and fabric of society as they are for wage workers.

If all our members could testify today, a chorus of voices -- including teenagers -- would plainly and clearly tell you that the subminimum proposals are for the benefit of the minimum wage employers who will reap wind-fall profits. For workers, the subminimum will pit sons and daughters against fathers and mothers, with no winners.

- 3 -

From long experience of negotiating with minimum wage employers, I can assure you that the proposed differential will result in rapid replacement and displacement of adult workers by teenage "six month" subminimum workers. In labor intensive industries like the service industry, where the profit per sales dollar is generally low, employers fight for every penny they can squeeze out of wages and turn into profits. No regulatory apparatus would stem this tide.

The proposed erosion of the minimum wage will also push millions of families into poverty, and add to the despair of the working poor who may well be so discouraged that they turn to welfare, finally admitting that working doesn't pay.

A few statistics help illustrate how vulnerable the current minimum wage workforce is to threats of subminimum wages. My comments are summarized in the tables attached to our written statement submitted for the record. Of the nearly 11 million workers at or below the minimum wage, almost 50 percent had total family incomes (counting all family earners) of less than \$12,000 per year. More than one third were the sole supporters of their families or living alone. We are not talking about workers picking up some spare change at a second job, or with a second family wage earner. Minimum wage earners depend on their wages for survival.

- 4 -

Congress has already eroded the ability of low income families to survive by failure to increase the minimum wage along with the cost of living. Today's minimum wage in real dollars is almost 9 percent below the 1967 minimum wage. Worse still, full-time minimum wage earners today earn \$1,400 dollars below the official federal poverty income for a family of four.

Clearly, any teenager willing to work for the proposed subminimum would have to have outside support systems to survive. That means the proposals will tend to give jobs to those teenagers whose families can support them. Teenagers from low income families will simply be unable to afford to work for subminimum wages.

In short, Congress has not been generous with its minimum wage. By any standard the current wage is too low.

I realize that the proponents of a subminimum teenage wage carefully avoid any reference to the plight of current minimum wage workers or vital role the minimum wage plays in shoring up the work ethic and protecting the welfare of working families. Advocates also avoid mentioning the huge surge in profits expected by teenager employers such as fast-food chains. Incidentally, as the table I have submitted for the record shows these employers have had big profit increases in the past five years.

- 5 -

Instead, proponents argue that teenagers are less productive workers and must have a period of training before they "deserve" the minimum wage. Any janitor or fast-food worker will tell you this is absurd -- and an insult to American youth. For the most part skills for minimum wage jobs are learned quickly and age is irrelevant. A sixteen year old can just as easily push a broom or flip a hamburger as a fifty year old with 30 years of experience.

The justification for the 180-day limit on sub-minimum wages apparently derives from this mythical "training" period concept. Far from encouraging employers to train teenagers, the 180-day provision will encourage constant and rapid turnover. In fact, the most immediate impact will be to replace the 44 percent of all teenagers currently working for the minimum wage (or below) with subminimum teenagers.

The other major justification for a subminimum -- that it will start teenagers on the road to stable career employment -- is equally absurd. Minimum wage jobs and industries are also low skill, dead-end jobs and industries.

For years we have worked, unfortunately with little success, to create job ladders and apprenticeship programs for our low wage workers -- young and adult alike. The mobility simply isn't there. In some industries, like fast-food and building services, there is nowhere to move to -- few job slots exist above the entry level. In other

- 6 -

industries, such as health care, all mobility comes from returning to school and years of formal education and licensure. Subminimum wages won't change this -- teenagers will merely take the jobs of their parents and stay there.

In closing, I want to emphasize that TEIU is opposed to a youth subminimum wage because it is bad for teenagers and adult workers alike. We agree that the current levels of youth unemployment are deplorable. The source of the problem, however, is not the minimum wage. And the solution is clearly not to replace adult workers with teenagers.

Instead, we urge you to work for job creation programs, including on-the-job training and skills-upgrading programs and vocational and college education assistance for all workers. The teenage unemployment rate reflects a general slowdown in the economy and shift to more capital intensive production. The solution lies with a national policy and commitment to full-employment. Subminimum wage proposals go in the opposite direction -- they erode workers' standard of living and legally justify exploitation of our most vulnerable workers.

We urge you to reject the youth subminimum and turn your attention to genuine strategies to promote jobs and decent wages for teenagers and all workers alike. Subminimum wages are nothing more than thinly disguised attempts to raise profits, not to help teenagers.

Thank you for your attention.

TABLE 1:

MINIMUM WAGE WORKERS
CHARACTERISTICS1980
(Numbers in Thousands)

	Minimum Wage Workers Total	% Of All Workers	% of Minimum Wage Workers
TOTAL	10,615	12.4%	100.0%
<u>Age</u>			
16-19 Years	3,267	44.2	30.8
20-64 Years	6,672		62.8
65+ Years	677	38.0	6.4
<u>Number of Earners</u>			
Only Wage Earner in Family	3,747	10.5	35.0
2 or More Wage Earners	6,860	13.8	65.0
<u>Industry</u>			
Agriculture	528	38.2	5.0
Manufacturing	963	4.6	9.0
Trade	4,033	24.2	38.0
Services	4,597	13.1	43.3
Other	495	4.3	4.7
<u>Occupation</u>			
Services	6,115	20.6	57.6
Sales	964	19.8	9.1
Laborers	798	18.6	7.5
Other	2,738	5.9	25.8

SOURCE: Current Population Survey as Reported by the Minimum Wage
Study Commission

TABLE 2: MINIMUM WAGE WORKERS
LIVE IN LOW INCOME FAMILIES

1978
(Numbers in Thousands)

Family Income	Minimum Wage Total	% of All Workers	% of Minimum Wage Workers
TOTAL	9,568	14.3	100.0
Under \$6,000	2,270	38.3	23.7
6,000-11,999	2,370	17.1	24.8
12,000-19,999	2,376	11.1	24.8
20,000 and Over	2,212	9.1	23.1

SOURCE: Current Population Survey as Reported by the
Minimum Wage Study Commission

TABLE 3: LABOR INTENSIVE FAST FOOD CHAINS MAKE HIGH PROFITS
- WILL GET WINDFALL GAINS WITH YOUTH SUBMINIMUM

Net Income (Profits) - In Thousands of Dollars

Year Ending:	McDonald's Corporation 12/31	Wendy's Internation- al, Inc. 12/31	K-Mart Corporation 1/30	Pillsbury Company* 5/31	Hardee's Food Systems, Inc. 10/31
1980	\$220,893	\$30,096	\$357,999	\$104,700	\$15,181
1979	188,608	23,096	343,706	83,471	11,030
1978	162,669	24,487	297,818	72,513	7,915
1977	136,696	14,062	266,574	NA	6,053
1976	109,180	6,610	200,832	NA	3,788
Percent Increase 1976-1980	102.3%	355.3%	78.3%	(79-80) 25.4%	300.8%

*owns Burger King

SOURCE: Moody's OTC and Industrial Manuals

Senator NICKLES. For our next panel, we have Mr. C. H. Fields, who is assistant director of the national affairs division of the American Farm Bureau, and Robert Bradford, who is executive vice president of the National Restaurant Association.

Mr. Fields?

Mr. FIELDS. Yes.

Senator NICKLES. And Mr. Bradford?

Mr. BRADFORD. Yes.

Senator NICKLES. And who is accompanying whom?

Mr. BRADFORD. We have with us Mr. and Mrs. Lynn Hunter from the Clam Hut in Highlands, N.J., and Arthur Castraberti of Prince Italian Foods in Saugus, Mass.; they are both restaurant operators.

Senator NICKLES. The Hunters from New Jersey?

Mr. HUNTER. Yes, sir.

Senator NICKLES. And your name again?

Mr. CASTRABERTI. Castraberti.

Senator NICKLES. And where are you from?

Mr. CASTRABERTI. Massachusetts.

Senator NICKLES. Well, welcome. Mr. Fields, if you would start out, I have read your statement and I appreciate many of the comments that you have made. If you would give us just a couple of comments, I would like to get into some questions.

STATEMENT OF C. H. FIELDS, ASSISTANT DIRECTOR, NATIONAL AFFAIRS DIVISION, AMERICAN FARM BUREAU FEDERATION; AND ROBERT E. BRADFORD, EXECUTIVE VICE PRESIDENT, NATIONAL RESTAURANT ASSOCIATION, ACCOMPANIED BY MR. AND MRS. LYNN HUNTER, HIGHLANDS, N.J., AND ARTHUR CASTRABERTI, SAUGUS, MASS., A PANEL

Mr. FIELDS. I will make this very short, Senator.

Senator NICKLES. Thank you.

Mr. FIELDS. I am about as hungry as you are and we are in favor of consumption of agricultural products, so I will take this up real quickly.

We support the enactment of legislation to exempt teenagers from the Federal—

Senator NICKLES. Could you move the microphone? Swing over and use the other microphone; it would be helpful. Thank you.

Mr. FIELDS. Senator, on behalf of the 3 million members of the Farm Bureau across the country, we support the enactment of legislation to exempt teenagers from the Federal minimum wage requirement, as provided in the bill you introduced, S. 658.

We believe, as Senator Percy said when he introduced his bill, that we have tried all other approaches—make-work jobs and all kinds of training programs. We think the time now has come to try this approach to see if it, in fact, will produce the results that we all are looking for.

Since the Congress is in session almost continuously, if it does not work, you certainly can change it in the future. So, while the debate goes on, we would like to see you go ahead and move forward and try this and see what happens. I do not think we will ever really know from the studies of the economists. I think what we ought to do is try it and see the actual results.

By the way, there has been a lot said here today about the seriousness of the problem in the central cities and, of course, that is true. However, a recent report published by the Economics and Statistics Service of the Department of Agriculture points out that youth employment problems, often portrayed, as I said, as being city related, are just as pronounced in the nonmetropolitan or rural areas. In fact, the percentage of unemployment among teenagers is almost exactly the same in the rural areas or the nonmetropolitan areas as it is in the cities. So, it is not just an inner city problem. The USDA report shows that there is a total of 880,000 unemployed teenagers in the nonmetropolitan areas of the country. I think that is one point I want to make.

Senator NICKLES. Was that 880,000?

Mr. FIELDS. Right.

Senator NICKLES. And our statistics, I think, showed 1.6 million unemployed teenagers altogether. So, about half are in the rural areas?

Mr. FIELDS. Yes. I think that has been overlooked. We have assumed that this is a central city problem. Of course, it is very serious there, but it also is a problem in the nonmetropolitan, rural areas of the country.

Now, we believe that farmers and ranchers would respond to a change in the Federal minimum wage and would employ more local young people, particularly in the fruit and vegetable business where a significant percentage of the agricultural employers must comply with the Federal minimum wage.

As you probably know, about half of the agricultural employers in the country now are exempt due to the small farm exemption in the act. But about half of them now are under the minimum wage, and this is concentrated particularly in the fruit and vegetable end of agriculture.

It also should be pointed out that a large percentage of the workers seasonally employed in agriculture are paid on a piece rate incentive basis and earn more than the minimum wage. Young workers are paid the same piece rates, but if they are inexperienced, they often do not earn the required minimum and the employer must make up the difference. As soon as these young workers get some experience, most of them have no problem earning the minimum wage and much more than the minimum wage.

Now, I think you know, coming from the State you come from, Senator, that those of us fortunate enough to grow up on farms or ranches do not have to be sold on the merits of learning the work ethic. We believe that young people should have an opportunity to learn from gainful employment and that the artificial barriers placed in the way of those who want and need to work, earn, and develop skills should be removed.

I will make one other point. I have attached to this statement some language, if you are looking at the overall youth unemployment problem. We have been trying to solve this problem, particularly in Oregon, Washington, and Maine, of having some short-term employment for these kids that are 11 and 12 years old to pick berries. Congress tried to solve that problem a few years ago, but it has gotten bogged down in the courts and in interpretations.

I have attached some language here to try to solve that problem while we are looking at this overall subminimum youth problem.

Senator NICKLES. Thank you very much.

[The prepared statement of Mr. Fields follows:]

STATEMENT OF THE AMERICAN FARM BUREAU FEDERATION
TO THE LABOR SUBCOMMITTEE OF THE SENATE COMMITTEE
ON LABOR AND HUMAN RESOURCES ON YOUTH UNEMPLOYMENT
AND THE FEDERAL MINIMUM WAGE

Presented by C. H. Fields, Assistant Director
National Affairs Division

March 24, 1981

Farm Bureau is the nation's largest general farm organization, representing more than three million member families in 48 states and Puerto Rico. More than 500,000 of those members are farm employers of nonfamily workers.

Last January the voting delegates of the member State Farm Bureaus adopted the following policy statement on the federal minimum wage:

"The federal minimum wage, as presently constituted, has become counterproductive and is not in the best interest of most workers, employers or the public in general. It acts to discriminate against young people, the disadvantaged and handicapped, and minority workers. We oppose further extension of the minimum wage law for agriculture. We call for the further recognition of piece-rate incentives as a factor in farm wage payments. We call upon the Congress to amend the present Fair Labor Standards Act (FLSA) to exempt minors from the minimum wage law or provide for a youth differential."

We support the enactment of legislation to exempt teenagers from the federal minimum wage requirement as provided in S. 658. Such an exemption for young people is already provided in a number of state minimum wage laws. If total exemption cannot be achieved, then we favor amendment to the Fair Labor Standards Act to provide for the employment of persons under 18 years of age at 75 percent of the required minimum wage, as provided in S. 348. We believe the differential needs to be at least 25 percent to induce employers to put more teenagers to work.

As Senator Percy said on February 5 in introducing S. 430, we have tried all sorts of training programs, make-work programs, special summer jobs for young people; and we still have youth unemployment of 15 to 18 percent, and double that for minorities.

We believe that it is time to let the market system work in the labor market and for the government to get out of setting market prices for labor. This is surely consistent with the President's program of

regulatory reform. The fact of the matter is that present minimum wage rates are only about half the hourly rates which must be paid by employers. When other benefits and training costs are included, the minimum wage is closer to \$5.00 or more per hour and very few teenagers are productive at such a rate.

While the debate goes on among some economists, political scientists, social workers and labor unions as to whether the sub-minimum wage or youth exemption would reduce unemployment among young people or reduce job opportunities for adults, the time has come to give this proposal a tryout, and to see how the private employers in this country will respond.

In our view, the best way to give the concept a tryout is to totally exempt those under 18 years of age. While we do not object to the three-year sunset provision in S. 430, we do not think such a provision is required. The Congress is in session almost continuously and can act at any time to restore a partial or full minimum wage for young people if it finds that the exemption or subminimum wage is producing negative results.

The protective provisions of S. 348 would appear to be sufficient to guard against abuse by some employers. We believe that the discipline of the market, the press and the numerous laws and regulations already in place are more than enough to assure fair treatment to employees. We would emphasize that young people should be eligible to take jobs at the subminimum rate or a free-market rate without prior certification by the Secretary of Agriculture, and that the employment of full-time students should proceed with a minimum of red tape, particularly at a time when fiscal reform requires a reduction in student loan and scholarship programs.

A report published last month by the Economics and Statistics Service of the Department of Agriculture points out that youth employment problems, often portrayed as purely big city-related, are just as pronounced in nonmetropolitan or rural areas, with some 880,000 unemployed young people currently residing in nonmetropolitan areas.

Most of the young people of this country are willing and eager to gain work experience in the private sector. For too long it has been the policy of government to discourage young people from experiencing gainful employment. It is time to change that policy to one of encouraging employers to employ young people and encouraging young people to seek and obtain valuable work experience.

America's farmers and ranchers, and some segments of the marketing and distribution system in agriculture, have long been major employers of young people. A significant portion of the nonmigrant seasonal

hired farm workforce in agriculture already consists of students and other young people; but when these people come to the farms and ranches with no experience and little knowledge of the work and skills required, many farmers hesitate to employ them at the required federal minimum wage. In many instances, they calculate that the cost of such employment is too high compared to the income to be earned from a particular crop, opting to purchase additional mechanized equipment, to change to types of production requiring less hand labor, or to seek the services of crew leaders in recruiting migrant crews.

We believe that farmers and ranchers would respond to a change in the federal minimum wage and would employ more local young people, particularly in the fruit and vegetable business, where a significant percentage of agricultural employers must comply with the federal minimum because they do not qualify for the 500 man-day exemption. We have no proof that such a result will ensue, and do not believe it is possible for anyone to offer such proof; but it is certainly worth a good tryout. The bulk of seasonal workers in agriculture is employed by the producers of fruits and vegetables and nursery crops.

It should be pointed out that a large percentage of the workers seasonally employed in agriculture are paid on a piece-rate incentive basis, and earn more than the minimum wage. Young workers are paid the same piece rates; but if they are inexperienced, they often do not earn the required minimum and the employer must make up the difference. As soon as these young workers get some experience, most of them have no problem earning more than the minimum required by federal or state law.

Those of us fortunate enough to grow up on farms or ranches do not have to be sold on the merits of learning the work ethic. We believe young people should have an opportunity to learn from gainful employment and the artificial barriers placed in the way of those who want and need to work, earn, and develop skills should be removed.

We also ask that the Fair Labor Standards Act be amended to make it possible for some short-season employers in agriculture, such as berry producers in Oregon and Washington and potato producers in Maine, to employ young people 10 and 11 years old for limited periods of time during nonschool periods. The Congress has tried to provide for such employment in the past (Section 13(c)(4)(A)), but the statutory restrictions, particularly with regard to offering absolute proof that such young people will not be harmed by the use of the agricultural chemicals, have resulted in so many court cases--financed mostly by groups funded by the federal government--and have so tied the hands of the Secretary that such young people cannot now be legally employed. We are attaching to this statement proposed amendatory language to the Act to reverse the burden of proof and to provide that the Secretary shall issue waivers for such employment unless he has scientific proof that the young people would suffer harm from the chemicals in question.

We appreciate the opportunity to present our views.

Amend Section 13(c)(4)(A) as follows:

"(4)(A) An employers or group of employers may apply to the Secretary for a waiver of the application of section 12 to the employment for not more than eight weeks in any calendar year of individuals who are less than twelve years of age, but not less than ten years of age, as hand harvest laborers in an agricultural operation which has been, and is customarily and generally recognized as being, paid a piece rate basis in the region in which such individuals would be employed. THE SECRETARY SHALL GRANT SUCH A WAIVER UNLESS HE FINDS, BASED ON PUBLISHED SCIENTIFIC DATA, CLEAR EVIDENCE THAT THE RESIDUES RESULTING FROM THE LEVEL AND TYPE OF PESTICIDES AND OTHER CHEMICALS USED IN ACCORDANCE WITH LABEL DIRECTIONS, INCLUDING REENTRY STANDARDS, ESTABLISHED BY THE ENVIRONMENTAL PROTECTION AGENCY WOULD HAVE AN ADVERSE EFFECT ON THE HEALTH OR WELL-BEING OF THE INDIVIDUALS TO WHOM THE WAIVER WOULD APPLY; and unless he finds, based on information submitted by the applicant that--

"(i) the crop to be harvested is NOT one with a particularly short harvesting season and the application of section 12 would NOT cause severe economic disruption in the industry of the employer or group of employers applying for the waiver;

"(ii) the employment of the individuals to whom the waiver would apply would be deleterious to their health or well-being;

"(iii) individuals age twelve and above are available for such employment; and

"(iv) the industry of such employer or group of employers has NOT traditionally and substantially employed individuals under twelve years of age without displacing substantial job opportunities for individuals over sixteen years of age.

Senator NICKLES. Mr. Bradford.

Mr. BRADFORD. Thank you very much, Senator.

I represent the National Restaurant Association, with some 10,000 member firms with 100,000 individual eating places. The NRA supports all efforts to expand youth employment in the private sector, and we believe that the youth opportunity bills offered by you, Chairman Nickles, and by Chairman Hatch and by Senator Percy do offer some hope in this area.

The food service industry is the Nation's largest employer of teenagers. There are 1.5 million teens who work in the food service industry; that is 16 percent of all the teenagers who are employed in this country. But minimum wage increases, and particularly the 46-percent increase over the last 4 years, have reduced job opportunities for teenagers.

A recent study done by Chase Econometrics shows that for every 10-percent increase in the Federal minimum wage, 112,000 40-hour-equivalent jobs are lost in the food-service industry. So, the 46-percent increase over the last 4 years, using the Chase figures, means the loss of about half a million jobs. When you take into account that the average job in the food-service industry is part time—that is, about 26 hours a week as opposed to a 40-hour week—you may be able to extrapolate that and say there is a loss somewhere of three-quarters of a million jobs.

Young workers who have little or no job experience and are, therefore, less productive, suffer most heavily when employers are forced to curb their labor costs.

Mr. Chairman, we do not think that the youth differential would eliminate all of the negative employment effects of the recent minimum wage increases. Yet, we believe it has the potential to expand youth employment and to allow more youth to obtain a necessary first-work experience. This is because the service industries have plenty of entry-level jobs, many of which have been eliminated or greatly reduced because of minimum wage increases. Those jobs, performed perhaps by the business owners themselves, some of whom are here at the table with me, or by the customers in the form of self-service, could be revived under a youth differential.

Now, critics claim that employers would be substituting youth; we have heard that argument made quite a few times this morning, substituting youth for older workers, and that they would fire more experienced teenaged workers merely to replace them with other youth eligible for the minimum. People who say that have never owned a restaurant; that is just not the way you do business. Few operators could run their businesses if they took capable, trained people and let them go to have a temporary, 6-month benefit of a youth differential.

On the subject of substitution, when you walk into a restaurant instead of getting curb service, when you make your salad, when you carry your own tray to the table, and when you clean off your own table, you are, in fact, substituting for an employee. That is because sometimes it does not make good business sense to hire that person.

Another form of substitution is capital. One of our food companies that is spending \$18,000 per establishment to put in a bever-

age-dispensing machine in order to reduce by one the number of employees on each shift. Now, if you multiply that by thousands of establishments, you can see what happens.

But what happens to the small business person who cannot afford this type of expenditure? The polls we have taken show that the last time the minimum wage went up, 71 percent of our members reduced the hours worked; 48 percent reduced the number of employees, and 30 percent reduced teenagers.

Finally, I would say that no one knows exactly how many jobs would be created by the youth opportunity wage because business ability to create jobs is affected by a lot of things—inflation, interest rates, and so on. But 10 States do use some form of youth differential now, and studies are showing—and we have submitted some for the record—that teenagers are willing to accept jobs paying less than the minimum wage in order to have that first opportunity to work.

Earlier this morning, they were talking about a subclass. We think the real subclass are those who have no jobs, no opportunity and no hope. We would hope that this committee and this Congress would give these people an opportunity and give them hope. Let us try it.

Senator NICKLES. I appreciate your comments.

Are all restaurants covered by the minimum wage? When we think of restaurants, the dollar figure is—

Mr. CASTRABERTI. State laws govern the minimum wage in each State.

Senator NICKLES. Does that cover most restaurants?

Mr. CASTRABERTI. It does, yes.

Mr. BRADFORD. Sometimes, they are covered by both. The Federal minimum covers all retail and service establishments which have annual gross sales exceeding \$325,000. But the Federal Fair Labor Standards Act does not preempt provisions of State law which are more stringent than Federal law. And establishments with sales under the \$325,000 threshold are covered by State minimum-wage laws, so virtually all foodservice establishments are covered by some form of minimum wage statute.

Senator NICKLES. Mr. Hunter, if we were able to exempt the 16- and 17-year-olds from the minimum wage, would you be bringing those people in and displacing people that have worked for you for some period of time?

Mr. HUNTER. Right now, I have 19 people working for me out of a work force of 90 that are under 18. They are part-time workers; they are going to high school. They are in a training program. They are quite limited in what they can do because of labor laws and Alcoholic Beverage Commission laws. They cannot work on the floor as a busboy because they cannot pick up an empty liquor glass. But they are working in the kitchen and they are working at the hostess desk.

Our restaurant was founded on youth employment; my wife started it at 18 and she had all her friends work with her. We are very big on youth employment; it is necessary. Our chief cook started at 18. We need it. I am very afraid that it is being phased out. We are putting in labor-saving devices and we are using more experienced people, working two people instead of three. I could

use three high school kids or college boys or college girls before, and now I am going and taking two people and working them harder and I am doing away with actual jobs.

Senator NICKLES. If we made the change, would you find a way of replacing some of your older employees with younger employees?

Mrs. HUNTER. Somebody asked me that and I said that was dumb; that is just stupid. As far as business practices are concerned, how can we do that? We are in business to stay in business. Granted, we want to make a profit. We are not making that great a profit; I think we are down to around 3 percent profit.

But would we eliminate somebody we have trained? It is stupid. I mean, we want to be good at what we do; we want to serve people. We are not going to fire somebody just because a teenager is coming in and working cheaper. We are going to start training that person.

Of our teenagers that we employ right now—I think it is about 20 percent of our work force—at least, I would say, 40 percent of them are above the minimum wage, and they reached it after 2 months. So, it is a non-business concept to say we are going to eliminate a more experienced worker just because we can bring in cheaper labor.

Senator NICKLES. Suppose we did exempt 16- and 17-year-olds. If you hired one of those persons and they acquired some skills—I am going to say they worked a summer for you when they were a sophomore in high school and then they came back the next summer and worked for you, or possibly during the year on Christmas break, or whenever they worked part time—would that more enhance their possibilities in getting a job with you or with somebody else when they turned 19 years old?

Mr. HUNTER. Certainly. We have so much room for advancement. We very seldom hire outside personnel, so to speak. If a waitress with ten years' experience comes in, there is no place for her because girls are coming off the desk or out of the kitchen or off the dishwasher and they are going into better-paying jobs—busing, waiting, cooking. In our system, they are going up.

There is natural attrition because these are part-time jobs during school or 17- and 18-year-old jobs, or they are first-year-out-of-high-school jobs, where they earn enough money in the summer to buy a car so they can get to another job.

Senator NICKLES. Do you see a lot of them, by getting into the system, actually step up the economic ladder?

Mr. HUNTER. Yes, most certainly.

Senator NICKLES. Let me ask Mr. Fields a question or two. You mentioned that about one-half of the farms were exempt and one-half were covered. What is the distinction?

Mr. FIELDS. In the present Act, Senator, as you know, there is a 500-man-day standard. That means that if you employ an equivalent of no more than six people, you are not under the Act.

By the way, I would like to throw in, if I have a chance right now—I am sorry that Senator Williams is not here, because I would hope that the Congress of the United States would be as progressive as his State and have a total teenage exemption. Senator Williams' home State of New Jersey is the most urban State in the Nation; it has always had a teenage exemption. There is no

minimum wage in New Jersey for teenagers. So, I just wish that the Congress would be as progressive as Senator Williams' State.

Senator NICKLES. Well, I hope people realize this. Part of the reason I came up with the 16- and 17-year-olds was that current labor laws prohibit people from getting into many, many types of jobs until they are age 18. Therefore, the economic value of a person in that stage is oftentimes, if not the majority of times, less than a person at a higher age.

Mr. FIELDS. Right.

Senator NICKLES. Mr. Fields, let me ask you one other question. You, as well as Mr. Bradford and everyone on both sides of this issue, regardless of their philosophies, commented that we have a serious problem. We have tried to solve this problem of youth unemployment by throwing money at training programs. This has not worked. The fact is that we have a great deal of unemployment.

If we are able to enact part of the changes regarding subminimum wages, we are asking the marketplace to respond. Let us try the marketplace; let us not have government automatically price too high the market capabilities and actually discriminate against anyone who might have talents that would be worth less than the so-called minimum wage.

Mr. FIELDS. By the way, another point that I made in the statement has not been brought out here this morning. The payment of the minimum wage is not the total cost of employing those people; that needs to be brought out. The total cost of employing, even at the minimum wage, is closer to \$5 an hour when you figure all the other costs involved with the employment.

Senator NICKLES. Do you mean matching social security taxes and other benefits?

Mr. FIELDS. Right.

Mr. BRADFORD. Senator, if I could say one other thing, too, I think that we have spent a lot of time this morning talking about statistics. We are really talking about young men and women who deserve the opportunity to learn the work ethic and to get that first job and to get that opportunity. We are all anxious to create as many of these jobs as we possibly can. We think that we are talking about creating jobs; we are not talking about displacing people. We are talking about new people who can come to work who are not working now, and that, to us, is a much better way to go at it, through the private system than through the public efforts that have not done very much so far in the past, in spite of all the money that has been spent.

Senator NICKLES. Very good. Thank you, Mr. Bradford, Mr. Fields, and the Hunters. We appreciate your statements; thank you. We appreciate you coming a distance, helping us and sharing with us your experiences.

Mr. BRADFORD. Senator, I would like to submit the statement and some attachments for the record.

Senator NICKLES. That will be ordered.

Mr. BRADFORD. Thank you.

[The prepared statement with attachments of Mr. Bradford follows:]



STATEMENT OF ROBERT E. BRADFORD
EXECUTIVE VICE PRESIDENT, NATIONAL RESTAURANT ASSOCIATION
BEFORE HEARINGS ON YOUTH EMPLOYMENT AND THE MINIMUM WAGE
SENATE LABOR AND HUMAN RESOURCES SUBCOMMITTEE ON LABOR
MARCH 24, 1981

Mr. Chairman and members of the Subcommittee, I am Robert E. Bradford, Executive Vice President of the National Restaurant Association. Our industry is the nation's largest employer of teenagers. One-and-a-half million of our eight million employees are teenagers; sixteen percent of all youth employed in the United States have jobs in foodservice. Therefore, we have a continuing concern about youth employment, and are proud of our contributions in this area. I am particularly pleased at the opportunity I have today to express our support for the concept of expanding youth employment and to outline our reasons for this support.

Minimum Wage Increases Reduce Job Opportunities

Economists constantly recite the fact that minimum wage increases result in loss of jobs. Nowhere is this more evident than in our industry. Foodservice was first brought under Fair Labor Standards Act coverage in 1967. From 1977 to 1981, the minimum wage has increased 46 percent. Part of the justification for such a huge increase was the perceived need to keep the minimum moving upward at the same pace as inflation.

Page 2

A fine goal, but what proponents of those large increases chose to ignore was the fact that the increases added to the business operator's inflationary burden. Faced with rising labor costs, what did business people do?

The first option was to raise prices to cover increased costs. In foodservice, prices do go up when the minimum wage goes up. A Data Resources, Inc. study found that, for each four percent increase in the minimum wage, restaurant menu prices increase one percent. So it is clear that the prices we charge the consumer are forced upward by minimum wage increases.

But it is also clear that price increases cover only a small portion of the foodservice operator's increased costs.

We have a very decentralized, competitive industry. We also compete with food served at home. These factors force a foodservice operator to minimize price increases as much as possible. If the operator fails to do so, competitors will take advantage, or you the customer will eat out less often. So the operator must look to curb labor costs when minimum wage goes up; he or she cannot merely pass those increases on to the customer.

Foodservice is a labor intensive industry, and the capacity of our operators to reduce cost by substituting capital for labor is very limited. Of course, where substitution can be done, it will be done, to the detriment of the people replaced. One example - a representative of a major chain told me that his company will redesign its beverage dispensers at the cost of \$18,000 per establishment to reduce by one the number of employees needed on each shift. Multiply the cost in dollars and jobs by several hundreds or thousands of establishments and one thing

Page 3

becomes clear - increases in the minimum wage make it more and more economical for employers to spend large sums of money to replace people. And that is true even in an industry like foodservice, which cannot be "automated" to any great extent.

Naturally, not every foodservice operator can invest \$18,000 in a soft drink machine. So other ways are found to reduce labor costs. Last year, we asked the readers of our Washington Report how they accommodated the 1980 increases. Here is what they told us:

- 71 percent of these foodservice operators reduced the number of employee hours worked
- 48 percent reduced staff
- 21 percent reduced operating hours and
- 28 percent added labor-saving equipment
- nearly 30 percent of these employers decreased the number of teenagers employed in their establishments in response to the minimum wage increase

A poll in 1979 produced similar results.

A recent study from Chase Econometrics indicates that a ten percent increase in the minimum wage rate costs the equivalent of approximately 112,000 forty-hour full-time jobs in the foodservice industry. Applying these figures over the period since 1977, which saw a 46 percent minimum wage increase, the Chase study would indicate that we have lost nearly half a million full-time job equivalents. When you consider that most of our employment openings are part time (the average foodservice employee works 26 hours per week), these figures translate to a loss of perhaps three-quarters of a million actual jobs which would otherwise have existed.

Page 4

Much of the damage done by the increases of the past four years is reflected in the chronically high youth unemployment figures, as well as in the large numbers of youth outside the labor force. Young workers, who have little or no job experience, and are therefore less productive and less valuable to the employer, suffer most heavily when employers are forced to curb labor costs.

Youth Differential: What Can It Do?

The youth differential would not erase all the negative employment effects of recent minimum wage increases. It could not guarantee every teenager a job, yet we believe it has the potential to expand youth employment and allow more youth to build the work experience and background they will need to advance in their adult careers.

Senator Hatch's bill, S. 348, would permit an employer to pay 75 percent of the minimum wage to employees under the age of 20 for a six-month period. Stiff financial penalties are provided for employers engaging in a pattern or practice of substituting younger workers for older ones employed at or above the minimum, or terminating younger employees in order to take continual advantage of the differential.

Senator Percy's bill, S. 430, is similar in most respects, but provides an 85 percent differential and an automatic repeal of the differential after three years.

Senator Nickles' bill, S. 658, would exempt employees under the age of 18 from the minimum wage provisions of the Fair Labor Standards Act.

Page 5

But where will the jobs come from? In ours and other service industries, there are plenty of jobs to be done, many that are no longer done because the minimum wage has made their cost prohibitive. Service station attendants, grocery store bag boys, soda fountain workers, carhops, all manner of errand-runners and clerks have been greatly reduced in number or eliminated entirely because of the higher minimum wage. In some cases, the duties of those jobs have been taken over by business managers or owners; a small business owner will take on these tasks when he or she can no longer afford to hire someone else to do them.

Much of the work formerly done by employees is now done by customers themselves - pumping gas, carrying groceries, preparing and serving salads, as examples. Since we have grown accustomed to the self-service salad bar, gas station or retail store, we tend to forget that they represent the loss of jobs once performed by other people. In most cases, the employees in question were young, building their work experience and skills. These are the types of jobs that have been reduced or eliminated by the increased labor costs involved in the minimum wage, and some of these jobs could be revived under a youth differential.

In any industry like ours, which is built on serving customers, maintaining a higher level of service will make a business healthier and more competitive. If our operators could stretch their labor cost budget to encompass more employees, they would do so because they know that more staff means more service, and more service means better business.

Page 6

Substitution

The only real argument advanced against the youth differential is substitution - employers would supposedly fire adults and replace them with teenagers, or fire teenagers after six months to replace them with other teenagers. S. 348 and S. 430 address these concerns more than adequately in their penalty provisions. But even if no legal penalties existed, few foodservice operators could run their businesses in this way.

First, the types of jobs about which we have been talking are primarily entry-level jobs, the types traditionally held by younger workers and the types having less appeal to older workers with more experience who can command better jobs and better pay. Our industry would see its job expansion in those job categories already occupied almost entirely by young people.

Secondly, we are looking toward the creation of new positions, toward the expansion of total employment, not merely filling existing positions. We are looking toward job opportunities that have not existed before for anyone, teens or adults.

Third, the retention of capable, experienced employees is a high priority of any business. In foodservice, we are acutely aware of the high cost of employee turnover. This makes it foolish and costly for us to systematically discharge any group of employees, whether adults or youth, only to take advantage of the youth differential. Foodservice operators who constructed this type of "revolving door"

Page 7

employment situation would find their training costs (measured in both money and time) multiplying while their trained employees moved on to work for their competitors.

The goal of youth differential is to make more young people into productive citizens able to advance to jobs that pay more than the minimum, either by assuming management positions in foodservice, or moving on to career opportunities in other industries, or even gaining experience necessary to start businesses of their own. The youth differential, as we see it, would not work to create any permanent underclass, or to tie people to low-skilled, low-paying jobs for the rest of their lifetimes. Indeed, by depriving younger workers of the necessary work experience, accelerating minimum wage increases have had the effect of sentencing them to less productive, less remunerative jobs as they grow older. We believe that much of the criticism leveled at the youth differential is unjustified when viewed in the light of the demonstrable negative effects of the minimum wage without a youth differential.

How Many Jobs?

How many jobs would be created by a .75 percent or 85 percent youth differential? Frankly, we do not know. So many factors affect business ability to create jobs - taxes, interest rates, the general state of the economy - that any accurate prediction is impossible. Some have advocated an "experimental" youth differential program, yet any youth differential plan is experimental, since so little is known about the extent of its potential job creation effects.

Economists seem to agree, however, that minimum wage increases cause a loss of jobs, and that this loss is concentrated in entry-level, or lesser-skilled employment. These economists also indicate that a youth differential would increase teenage employment. Ten states currently use some form of youth differential or exemption. And a recent study from the Center for Human Resource Research at Ohio State University shows that teenagers are willing to accept jobs paying less than minimum wage in order to have the opportunity to work. We believe this evidence justifies the creation of a youth differential wage under the Fair Labor Standards Act, even though precise results cannot be measured at this time.



TABLE OF CONTENTS

1. Employment and Labor Force Effects of the Minimum Wage
--Summaries of various studies
2. The Impact of the Minimum Wage on the Restaurant Industry
--Study by Data Resources, Inc.
3. Impact of Changes in Minimum Wage Rates . . . in the
Restaurant Industry
--Study by Chase Econometrics, Inc.
4. NRA Washington Report Poll on Minimum Wage Effects, 1980
5. Longitudinal Study of Young Americans
--Study by Center for Human Resource Research,
Ohio State University

EMPLOYMENT AND LABOR FORCE EFFECTS OF MINIMUM WAGE LEGISLATION

Primary Findings

- Increases in the minimum wage result in reduced employment opportunities and discourage broad segments of the population who perceive an increase as a reduction in the likelihood of finding employment.
- Those most affected include teenagers, especially minority teens, and other low wage, low skill groups.

1. The Effects of Minimum Wages on the Distribution of Changes in Aggregate Employment, Marvin Koters and Finis Welch, Rand Corporation.

Minimum wage legislation has had the effect of decreasing the share of normal employment and increasing vulnerability of cyclical changes in employment for the group most "marginal" to the work force....teenagers, especially nonwhite teens.

2. Effects of Minimum Wages on the Level and Age Composition of Youth Employment, Finis Welch and James Cunningham.

"For each increment of 1 percent in the costs of hiring those aged 18 to 19 years, the employment of 18 to 19 year olds falls 1.3 percent, employment of those 16 to 17 falls 2.4 percent and for persons aged 14 to 15 the drop is 4 percent."

3. The Effects of Cohort Size and Minimum Wages on Youth Employment, Nabeel Al-Salam, Aline Quester and Finis Welch.

Increased minimum wages reduce the employment of both white and nonwhite teens. Estimates indicate that if the minimum wage were \$1.00 lower in 1978, 250 to 440 thousand more jobs for white teens and 49 to 56 thousand more jobs for nonwhite teens would have been available.

4. Unemployment Effects of Minimum Wages, Jacob Mincer, Columbia University.

Results suggest that the employment effects of the Federal minimum serve to reduce employment of low skill groups. Disaggregating according to race, age and sex, he finds that nonwhite, younger workers are most adversely affected by increases in the minimum wage.

5. Mincer-Hashimoto Study.

Employment reductions are associated with a reduction in size of the labor force. Thus, potential workers are evidently more likely to drop out of labor force than to queue for remaining jobs.

(2)

6. Impact of Minimum wages on Other Wages, Employment and Family Incomes, Edward M. Gramlich, University of Michigan.
Gramlich's strongest findings concern the income redistribution effects of minimum wage; however, he found significant adverse impacts to minimum wage increases among full time workers.
7. Minimum Wage Legislation and the Youth Labor Market, James F. Ragan, Jr., Washington University.
Had the 1966 amendments not been implemented, model indicates that youth employment would have been 320,000 persons higher in 1972 than it actually was and the aggregate youth unemployment rate would have been 3.8 percentage points lower.
8. The Effect of Legal Minimum Wage on the Pay and Employment of Teenage Students and Nonstudents, James F. Ragan, Jr.
A higher minimum wage leads to a job loss among teenagers, especially nonwhite males and males not in school.
9. The Effect of Statutory Minimum Wage Increases on Teenage Employment, Yale Brozen, University of Chicago.
Ratio of teenage unemployment to overall unemployment increased from 2.5 in 1960 to 3.6 in 1968 during which time the minimum wage was increased from \$1.00 to \$1.60 and its coverage broadened considerably.
10. Federal Minimum Wage State By State Impact Analysis, Dr. Jack Carlson, Chamber of Commerce of the United States
Details on a state-by-state basis job loss, labor cost increase and consumer price increase effects of two 1977 minimum wage bills.
11. The 1978 Joint Economic Report of the President, published March 15, 1978.
"While designed to provide minimum income to low income workers, it (minimum wage) tends to decrease their prospects for employment."
12. An Evaluation of Quebec's Minimum Wage Effect on Production, Employment, Prices and The Distribution of Income, Pierre Fortin, Laval University.
A 10 percent increase in the minimum wage increases unemployment substantially overall, but especially among those 14 to 24 years old and women over 25. Quebec's high minimum wage wiped out from 25,000 to 42,000 job opportunities in 1977-78.
13. The Impact of Minimum Wages on Teenage Schooling and on Part-Time/Full Time Employment of Youths, J. Peter Mattila, Iowa State University.
Minimum wages have shifted youths away from full time work.

(3)

14. Some Aspects of the Social Pathological Behavioral Effects of Unemployment Among Young People, Llad Phillips, University of California.
Preponderance of evidence indicates the minimum wage impacts heavily on young males, displacing them from jobs, raising unemployment and driving them from the labor force. Evidence also indicates that unemployed or discouraged young males seek illegitimate alternatives to employment.
15. The Effect of Minimum Wages on Teenage Unemployment Rates, Thomas Gale Moore, Journal of Political Economy.
Constructed econometric model which suggests proposal to increase minimum wage to \$1.80 in 1970 and \$2.00 in 1971 would have increased nonwhite teenage unemployment by 4.6 percent in 1971, 11.3 percent in 1972, 14.5 percent in 1973 and 15.6 percent in 1974.
16. Teenage Unemployment and Real Federal Minimum Wages, Douglas K. Adie, Journal of Political Economy.
Increases in Federal minimum wage cause unemployment among teenagers.
17. Update of Mincer Estimates of the Effects of Minimum Wages on Employment, Ron Krumm, University of Chicago, April 1977.
Loss of employment due to an increase in the minimum wage from its present level (1977) to 60 percent of the average manufacturing wage results in a loss in employment of almost 2.5 million jobs. Teenagers, nonwhites and younger working adults are most harmed.
18. Unemployment Policies to Reduce Inflation, Michael L. Wachter, University of Pennsylvania.
Minimum wage law reduces the demand for low wage workers in covered sector.
19. The Problem of Teenage Unemployment, Alan A. Fisher, University of California.
The minimum wage has been an important factor in increasing teenage unemployment.
20. Walter E. Williams, Temple University.
This year's (1980) 7 percent increase in the minimum wage will cause unemployment among low skilled black teenagers to rise from 35 to 40 percent.
21. Employment Effects of Minimum Wage Rates, John M. Peterson and Charles T. Stewart, Jr.
Higher minimum wage rates have slowed employment growth in low wage industries in the South relative to employment growth in the same industries in the rest of the nation.

(4)

22. Minimum Wage Regulation in Retail Trade, Belton M. Fleisher, 1981.

Minimum wage legislation during the 1960's resulted in a loss of one-third to one-half million full time job opportunities in retail trade. Teens were most adversely affected.

sfm
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The Impact of the Minimum Wage on the Restaurant Industry

A study by Data Resources, Inc.

Introduction

The National Restaurant Association has contracted with Data Resources, Incorporated of Lexington, Massachusetts to analyze the effects of minimum wage legislation on the restaurant industry. In particular, DRI has examined the effects on employment, unemployment, wages, hours worked and price changes in the industry that are attributable to minimum wage legislation. It has also examined the impact on business performance, as evidenced by trends in failures of restaurants. The final section of the study deals with the extent to which the minimum wage serves to redistribute income to restaurant workers in low income households.

Data Resources, Inc., a prominent econometric, forecasting and consulting firm, is headed by Dr. Otto Eckstein, a member of the Council of Economic Advisors under President Johnson. Economic studies done by DRI are widely used by private industry as well as the Federal and state governments. Among its clients are the Congressional Budget Office, the Federal Reserve Board, the Congressional Research Service and the U.S. Department of Commerce.

The summary which follows consists mainly of excerpts from the DRI study. Readers are encouraged to study the DRI report in order to gain a fuller understanding of the reasoning behind the conclusions and the context in which they are presented. A statistical appendix is available for those wishing to examine the underlying quantitative analysis.

Although the report refers to the "restaurant industry" for purposes of readability, the base data for wages, employment and hours worked relate to the Census category of "eating and drinking places." The discussion of restaurant and menu prices refers to the Bureau of Labor Statistics index of "food away from home."

Summary Findings of DRI Study

General Conclusion

The impacts of continued minimum wage increases on employment, average weekly hours, prices, wage inflation in labor markets and business performance in the restaurant industry are all clearly negative. These findings are in accordance with the expectations of economic theory and previous research.

Previous Studies

Previous employment studies have reached the uniform conclusion that increases in the minimum wage have reduced the number of jobs available in industries subject to the minimum wage and discouraged broad segments of the population from seeking employment. These workers perceive an increase in the minimum wage as a reduction in the likelihood of finding employment.

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An earlier study by Gramlich for Brookings Institution found that a very low correlation existed between low wage earners and low income families. About 55 percent of any increase in the aggregate wage bill accompanying an increase in the minimum wage goes to individuals in families above the median level of income. Gramlich reached the strong conclusion that minimum wages provide a greater subsidy to those above poverty levels than those below.

Employment and Unemployment Effects

The following findings are for the restaurant industry as a whole. Individual firms may differ substantially from industry averages.

A 4 percent increase in the minimum wage produces slightly more than a 1 percent decrease in restaurant employment, after other influences on industry growth have been discounted.

Similarly, the probability of a typical worker finding a job in the industry is reduced as the minimum wage goes up.

The effects of the minimum wage on restaurant industry jobs are conclusively negative. The foodservice industry is the largest single employer of teenagers in our nation. Increases in the minimum wage eliminate job opportunities for teenagers and systemically exacerbate the long-standing problem of non-white teenage unemployment.

The unemployment effects shown below are for all workers and not specifically for those employed in the restaurant industry.

Non-white teenagers suffer a double blow from unemployment induced by the minimum wage. Job opportunities are reduced and increasing numbers seek employment. A strong inference is that the minimum wage systematically effects non-white teenagers disadvantageously relative to white teenagers.

Analysis of the relation between unemployment among non-white teens and the minimum wage shows that a 5 percent increase in the ratio of minimum to average manufacturing wages produces a one percent increase in the unemployment rate.

Wage and Price Effects

The study clearly indicates the adverse impact of minimum wage changes on the hours worked by the average restaurant employee. This result takes account of changes in average hours associated with changes in worker productivity and real output.

An increase in the minimum wage does not pass directly to low-wage workers since employers will typically economize on the use of labor by reducing the hours worked as well as the number of employees. In the restaurant industry a 7 percent increase in the minimum wage will produce a 1 percent decline in average weekly hours.

A 4 percent increase in the minimum wage will produce a 1 percent increase in the average price for a meal away from home.

Business Failure Effects

Business failure is closely related to changes in gross industry revenues and changes in the minimum wage.

A 5 percent increase in the minimum wage increases typical restaurant labor costs 3 percent. This finding takes into account the estimated changes in hours, employment, and prices with respect to changes in the minimum wage. Historically, operators have been able to pass on roughly half of the labor cost increase to consumers in the form of higher menu prices. The remaining portion has been absorbed in reduced operating margins. This reduction in operating margins undoubtedly contributes to the number of business failures in the industry.

Income Redistribution Effects

Additional income from minimum wage increases in the restaurant industry frequently goes to middle and upper income households. This is because large numbers of teenagers and wives employed by the restaurant industry are supplementing other sources of household income.

Analysis of Bureau of Labor Statistics employment survey data indicates that the impact of minimum wage legislation in redistribution of income to the economically needy is quite small. Roughly 60 percent of foodservice workers come from families whose household income is above \$12,500, and they typically contribute 20 percent to total household income.

This study supports the conclusion that minimum wage legislation works to the disadvantage of non-white, teenage workers and their families without providing substantial compensating benefits.

ECON: 12/20/78

The Impact of The Minimum Wage on
The Restaurant Industry

by

Data Resources, Inc.

Lexington, Massachusetts

January, 1979

Prepared for

National Restaurant Association

1850 K Street, N.W.

Washington, D.C. 20006

INDEX

Introduction.....	1
Previous Studies.....	1
Methodology and Data.....	4
Employment and Unemployment Effects.....	5
Wage and Price Effects.....	8
The Minimum Wage and Business Failure.....	11
Evidence From Cross-Sectional Surveys.....	12
Summary.....	16
Selected Bibliography.....	17

I. INTRODUCTION

This report provides documentation for DRI's preliminary investigation of minimum wage legislation and its impact upon the restaurant industry. The objectives of the study are twofold. The primary motivation is to reveal existing relationships among various causally related indicators of restaurant activity and the minimum wage. As such, the results are historical and merely suggestive for future impacts. The second objective is to suggest possible avenues for the preparation of econometric models suitable for extensive policy simulation analyses. The results presented below represent DRI's best estimates utilizing publicly available data and a wide variety of econometric models. The major points outlined below present an investigation of those restaurant specific impacts generated by minimum wage legislation. Wherever possible, additional analyses utilizing information not currently available to DRI will be suggested. Where appropriate, qualification of conclusions will be related to data or statistical inadequacy.

The remainder of this report is divided into five major sections, each section relates minimum wage legislation and its timing to a particular aspect of the food service industry or its labor market. The first section provides a summary of the relevant literature on the minimum wage and its potential impacts. References to major research studies are provided for the preparation of more extensive briefing papers. The second section deals exclusively with the employment and unemployment effects of minimum wage legislation. Traditional estimates of labor demand and supply bring little evidence to bear upon the restaurant specific labor market. The material presented in this section represents a significant first step toward deciphering the aggregate wage-employment dynamics of the restaurant industry.

The third section explores wage, hour, and price changes in the restaurant industry attributable to minimum wage legislation. Separate studies of these individual phenomena oftentimes produce inconsistent results. The combination of disaggregated data (restaurant industry figures) and a uniform perspective provide a picture consistent with economic theory. Closely following the analysis of wages and prices is an analysis of the impact of minimum wage changes upon business performance in the restaurant industry. By analyzing trends and cycles in business failure, a basic understanding of the influence of legislative timing upon industry performance is obtained.

The final section deals with cross-sectional evidence on the relationships between worker incomes, wages, hours, and demographic characteristics. Utilization of data on workers affiliated with the food service industry provides the basis for sound inference about the distributive impacts of the minimum wage. Comparison of these results with those found for the aggregate labor force yields an estimate of the extent to which minimum wage provisions redistribute income toward restaurant workers in low income families.

II. PREVIOUS STUDIES

Reviews of the Fair Labor Standards Act and subsequent amendments have focused upon the macroeconomic impacts of the legislation upon aggregate labor markets. While correctly emphasizing unemployment, labor force participation, and wage inflation effects, these studies have focused exclusively upon quarterly movements in broad aggregates. Results outlined below illustrate that the more detailed, disaggregated perspective obtained from monthly data occasionally changes the conclusions obtained in earlier studies.

Information on the history, legislative and economic, is available from a number of studies, most notably Goldfarb (1). An excellent historical treatment of the legislative history of the Fair Labor Standards Act can be found in the Monthly Labor Review. The original intent of the Act did not encompass the broad coverage of the current minimum wage provisions. The authors of the legislation also presumed that all workers covered by the law would actually receive the minimum wage. To the extent that noncompliance exists, the magnitudes found in the current study actually understate the true impact. This particular aspect of the Fair Labor Standards Act conditions all statistical estimates in the literature. With the data currently available, no conclusion about the relative compliance of the restaurant industry to all industry is possible. A particular study which impacts all empirical work in an unknown fashion is a study of noncompliance with minimum wage standards performed by Ashenfelter and Smith (2) and updated by Gramlich (3). The uniform conclusion in both studies is that widespread non-compliance exists and varies across major industry groups. Both studies indicate that noncompliance appears to be decreasing over time. The general issue of noncompliance is not addressed in this study for two reasons. First, substantial questions about the methods used to calculate noncompliance exist. Second, there appears to be no compelling rationale, given those methods, for expecting noncompliance to be a greater or lesser problem in the restaurant industry. Even if measures existed, the subsequent adjustment of our results would not be a clear cut task.

Ashenfelter and Smith, in a study for the Department of Labor utilize the Current Population Survey. Statistics from this monthly survey indicated that the distributions of earnings differed between fully and partially covered industries. They conclude that, nationwide compliance is somewhere between 65 and 75 percent in covered employment. Gramlich's update and extension of this study found that compliance varied across major industrial groups and between partial and fully covered industries. Estimates of compliance from two years of data indicate a range between 40 and 65 percent. One interesting corollary to his study was the finding that coverage or compliance appeared to be constant across all demographic segments of the labor force. This conclusion is important for the work that follows insofar as systematic differences in the compliance or coverage of various groups in the labor force would bias the employment and unemployment impacts across those groups. Gramlich also found that the variations in compliance were only loosely related to whether the industry was covered by legislation.

Labor market effects of minimum wage changes can be categorized in terms of wage inflation, unemployment, and labor force participation impacts. Unemployment presents the most difficult controversy. Numerous studies support an adverse impact on unemployment as minimum wages increase. However, a large number of studies find no consistent relationship between changes in minimum wages and unemployment rates. The final balance of the opposing views swings toward adversity as the investigation focuses upon particular age or racial groups, e.g., Moore (4) and Mincer (5). Regardless, point estimates of impacts have varied considerably and provide no rational basis for numerical forecasts of aggregate unemployment.

Employment, or labor force participation studies have reached the uniform conclusion that increases in the minimum wage have reduced the number of jobs available in covered industries and discouraged broad segments of the population who perceive an increase as a reduction in the likelihood of finding employment. Welch (6), Kelly (7), Mincer (8), and Gramlich (3) all found significant adverse impacts to minimum wage increases, both in full-time and part-time employment. Welch found a negative impact upon the ratio of teenage to adult employment when

minimum wages, adult unemployment, and economic growth were included as explanatory variables. The results did not change when armed forces, school, and federal jobs participation were included as conditioning variables. Mincer found negative effects upon employment and labor force participation rates when adult unemployment, time (as a proxy for productivity), and armed forces employment were used as conditioning variables in conjunction with minimum wages. Gramlich found employment effects when real industry growth, real minimum wages, time, minimum wage coverage, and labor supply considerations were used as explanatory variables.

Essentially, a rise in the minimum wage influences the overall price level and the level of prices within an industry in several stages. The first impact is the direct one on the wage rate for those who were earning less than the minimum. A second, rather immediate impact is an emulative effect on the wages of those just above the minimum and those whose contracts or bargains incorporate the minimum in the wage scale. The actual size of this emulative effect is quite controversial. Third, if the wage increase is passed through to the consumer, behavior in accord with most studies of the inflationary process, then there will be a feedback effect of higher prices on the wage demands of other workers. Finally, additional pressures on the price level may attend any stimulative fiscal or monetary measures taken to restore jobs to those displaced by increases in the minimum wage. One very important corollary to this descriptive process is that the direct effects of a minimum wage increase as the level of the minimum wage approaches the middle of the aggregate or industry wage distribution.

The final subject of discussion is that of income distribution. Having information about the impact of minimum wage legislation on low-wage workers provides a partial estimate of the benefits and costs associated with this program. An important addition is an inspection of the impact on low-income families. Aggregate studies performed by Gramlich are the only studies, to date, which investigate the relationship between low-wage earners and low-income families, with the dramatic postwar increases in labor force participation by teenagers and women. The presence of multiple earner families has altered the relationship between these two groups.

Gramlich's first finding was that a very low correlation existed between low-wage workers and low-income families. By investigating three major groups, teenagers, adult males, and adult females, Gramlich finds that the spill-over effects of minimum wage changes on the income positions of individuals above the median level of income constitute approximately 55 percent of any change in the aggregate wage bill.

Thus, the redistributive impact, incorporating the effect of the minimum wage bill and the fact that the arbitrarily defined poverty level is well below the median, of the minimum wage appears to be quite modest. Moreover, the fraction which does accrue to low-income individuals overstates the benefits by ignoring the disemployment or unemployment effects of a minimum wage increase. Gramlich's strong conclusion is that minimum wages provide a greater subsidy to those above poverty levels than those below.

III. METHODOLOGY AND DATA

The methodology employed for this study is that used in traditional economic hypothesis testing. Utilizing causal relationships suggested by economic theory, data on relevant variables are analyzed to determine whether or not the reasoning suggested by theory is supported by the available evidence. The application of this methodology produces results which are conditioned by the statistical techniques employed, the underlying explanatory power of economic reasoning, and the quality of the data investigated.

The hypotheses examined are detailed in the sections that follow. The study is directed toward an examination of the major impacts of the minimum wage suggested in previous major studies of the legislation. Ancillary issues which figure prominently in current policy discussion are addressed when feasible. It is important to recognize that two different data types are available for investigation and the analytical methods appropriate for the analysis of each type differ.

This first set of data is information available in time series form. Measures of prices, wages, employment, and sales are examples of data gathered and analyzed as time series. The second data is cross-sectional, or point-in-time, in nature. Information on family incomes, hours, race, and age of restaurant workers in a given sample are examples of cross-sectional data. The basic techniques for investigating time series and cross-sectional data are multiple regression and contingency table analysis, respectively.

The use of multiple regression analysis is a procedure used to quantify the relationship among a set of variables. Here, the impact of many explanatory variables (called independent variables) upon the variable of ultimate interest (the so-called dependent variable) can be modeled simultaneously. The regression, or slope, coefficients measure the marginal, or incremental, impact of each independent variable upon the dependent variable - holding all other variables fixed. The regression constant captures the combined average impact of the independent variables. The STANDARD ERROR is a measure of the precision with which the regression coefficients and constant are estimated. The T-STATISTIC utilizes this estimated precision to test, in a rigorous statistical fashion, whether the incremental impact of each independent variable is significantly different from zero. The R-BAR SQUARED of an equation indicates the percentage of the variation in the dependent variable which can be explained by all of the independent variables, in concert. The DURBIN-WATSON STATISTIC is a number that summarizes the behavior of the unexplained component of the dependent variable. The standard rule of thumb for determining the importance of a particular explanatory variable is that its T-STATISTIC should be larger than 1.7 in absolute value. Traditional regression results, however, are only as reliable as the form of the explanatory variables. Procedures such as seasonal adjustment or correcting a variable for price inflation can alter the results in a qualitative, as well as a quantitative, fashion. This problem is known as specification error. It is common to virtually all models of economic phenomena and arises from imperfect knowledge or from weak assumptions. More often than not, these problems arise from the inability of economic theory to fully explain a particular economic problem.

Contingency table analysis utilizes the basic elements of probability theory and the large sample size usually associated with cross-sectional data to draw inference about the independence of interrelatedness of economic variables. By grouping data into groups with common economic or demographic characteristics one can look at variables of interest and determine whether or not available data link economic phenomena to demographic or socio-economic status. The summary statistic available from the analysis of contingency tables, termed a CHI-SQUARE test, indicates whether or not the data support the belief that the sample comes from a larger population where the characteristics used for classification are genuinely independent.

By tabulating, or calculating, the values of variables such as hours, wages, and household income for individual observations in a cross-sectional data set, the trained analyst can associate extreme values with particular groups. It is important to realize that contingency table analysis does not provide the reason for the relationship. Answers to these questions require additional theoretical and statistical analysis.

The data used in this study, with a single exception, comes from various publicly available government sources. Price, wage, hours, and employment figures were taken from Bureau of Labor statistics publications. Figures on restaurant sales were obtained from retail sales data published by the Department of Commerce. Business failures data was calculated and made available to this study by Dun and Bradstreet. All time series data were seasonally adjusted using the Bureau of Census X-11 method prior to statistical analysis.

Cross-sectional data was obtained from the Bureau of Census' Current Population Survey Annual Demographic File (CPSADF). This annual survey of some 130,000 individuals is the source of data used for various census projections and analyses. Relevant hypotheses were analyzed using 1970, 1973, and 1976 summary tapes from the CPSADF. Results were presented from the 1976 survey. At publication, the 1976 survey was the most recent available for analysis and presentation.

IV. EMPLOYMENT AND UNEMPLOYMENT EFFECTS

The general economic question posed by the minimum wage is whether the benefits of higher wages exceed the costs inherent in

1. Changing the mix of capital and labor employed in covered industries.
2. Reducing the employment prospects of workers employed in covered industries.
3. Altering the mix of services or firms in a particular covered industry.

The first issue cannot be addressed with publicly available data. Comprehensive surveys of management response to changes in minimum wage provisions are needed to analyze the extent to which restaurant operators change the nature of the food service preparation and delivery.

The third issue also requires additional work following a broad-based survey. Without actual time-paths of individual restaurant or chain performance at each distribution point inferences about the changing structure of the restaurant industry will be basically unreliable. One exception to this dismal conclusion is that reasonable estimates of the relationship between increases in wage costs and business failure can be prepared for the aggregated restaurant industry.

The next two sections will address the second issue, i.e., the full range of wage, hour, and employment prospects for laborers in the restaurant industry and those who typically seek employment there. A fundamental premise of the statistical work that follows is that the impact of minimum wage legislation is most evident when viewed in the context of a particular industry. The restaurant industry provides an excellent starting point for a disaggregated analysis of minimum wage legislation.

Three primary areas of statistical study generally classified under the rubric of employment-related impacts are

1. Labor force participation,
2. employment, and
3. unemployment.

No single concept adequately captures the impact of minimum wage legislation. Economic and practical reasoning dictate that the effects on the third category are a residual, or byproduct, of minimum wage impacts on the decision to look for a job and the likelihood of obtaining employment.

Employment in the restaurant industry could be expected to depend upon the productivity and costs of labor and non-labor inputs and real industry growth. Leaving aside the subtle analysis of the flow of workers between jobs in the covered and uncovered sectors, restaurants can be expected to employ labor up to the point where the incremental contribution to service or output is just balanced by the incremental cost of another hour's labor. Previous analysis has typically provided a very loose relationship between employment, or labor demand and the minimum wage. A probable cause is the overly aggregative view of the labor market. Looking at overall employment includes trade and/or craft union, as well as white collar employment. Including these sectors of the labor market when judging the impact of minimum wage legislation renders the economic rationale for a potential impact meaningless. Variations in employment in the restaurant industry, when conditioned upon real industry growth and time (as a proxy for productivity and associated capital inputs) are negatively related to the real (CPI-deflated) minimum wage.

The best statistical result implies that the elasticity of employment with respect to the level of the deflated minimum wage is roughly .26. Another way to view this figure is that a 4 percent increase in the minimum wage produces a little more than a 1 percent decrease in restaurant employment. This result is all the stronger, given that real growth effects were removed from changes in industry employment. The magnitude of this impact was roughly half that of real growth when the timing of growth and wage changes were ignored. When the timing as well as the magnitude of these changes is included in the definition of variables, the two major explanatory factors are of roughly equal importance. The implied changes in employment response

to lagged changes in real output, time, and real minimum wages indicate that the elasticity of restaurant industry employment with respect to real output and minimum wages are equal (approximately .30) but opposite in sign. The maximum impact of real output changes occurs in the current month, while the greatest impact from minimum wages occurs five months after a change. The results of this analysis are robust to traditional auto correlation corrections. Together the explanatory variables explain over 99% of the variation in restaurant employment. Detailed presentation of the statistical results will be submitted in a technical appendix.

Labor force participation by individuals determines the base from which unemployment rates are calculated for a given level of employment. If the number of individuals seeking jobs increases, then the unemployment rate, defined as those seeking, but unable to obtain employment, must rise. Just as cost-of-living escalators depend typically upon the level of a single number, the Consumer Price Index, a large number of federal, state, and local expenditures and grants depend upon the level of unemployment among certain demographic groups. Hence, labor force participation and its impact upon unemployment rates can have a crucial effect on a large number of budget items.

Labor force participation is influenced by three economic facts: the first is the probability of finding employment, the second is the likely financial reward once employment is obtained, and the third is the net cost of remaining out of the labor force. With the increase in the number of industries covered by the minimum wage (or union scale wages based upon some mark-up of the minimum) changes in the likely financial reward will follow changes in the minimum wage. However, insofar as a minimum wage increase has employment effects, the probability of finding a job varies inversely with the level of the minimum wage. The final element, the net cost of non-participation varies directly with eligibility and benefits associated with various transfer payment systems. For certain groups, e.g., teenagers, the number of individuals eligible for unemployment compensation was very small.

Traditional participation studies have sought to determine the effect of minimum wage changes upon job search and rates of participation. An excellent example cited above is the study by Mincer. Virtually all studies in the past have utilized quarterly labor force figures. The use of monthly data provides an important new result. When conditioned upon time and adult male unemployment (as proxies for increases in benefit payments available to non-participants and the likelihood of obtaining employment) the participation of white teenagers was inversely proportioned to the ratio of minimum to average manufacturing wages. The wage ratio was used to calculate the economic reward of job location. Conceptually, the relevant attractiveness of the reward is the wage of the likely job deflated by the return of the average job. Thus, participants who see a fall in the ratio of the minimum wage to the average manufacturing wage realize that the real return or reward of employment has fallen. The fact that white teenagers leave the labor force as the economic reward rises indicates that the job location effect is stronger than the economic reward effect. That is, this group perceives a net decrease in its labor market position when the minimum wage increases. The direct result is that the effect of the minimum wage on unemployment in this group is the sum of a negative employment impact and a positive participation impact. Statistical investigation of the relationship between unemployment and labor market variables, which included the minimum wage, support this result. The relationship between unemployment and the minimum wage is ambiguous.

However, among non-white teenagers an interesting result appears. Whereas a 14 percent increase in the wage ratio reduces white teenager participation by 1 percent, a simple 5 percent increase in the wage ratio leads to a 1 percent increase in non-white teenage participation. Clearly, non-white teenagers view the economic reward component as a stronger influence than the job location probability. This result is very robust; remaining when lags in timing and response, changes in population growths, and elimination of trend components in the variables are made. Thus, for reasons of economic need or differential non-participation costs, non-white teenagers suffer a double blow from unemployment induced by the minimum wage.

Job opportunities are reduced and increasing numbers enter the labor force. A strong inference is that the minimum wage systematically effects non-white teenagers disadvantageously relative to white teenagers.

This result is reinforced by an analysis of the relation between unemployment among non-white teens and the minimum wage. Here, a virtually identical result is obtained. A five percent increase in the ratio of minimum to average wages produces a one percent increase in the unemployment rate. This result and that of the unemployment of minimum wages on whites are noteworthy in another context as well. In both cases, the behavior of unemployment with respect to the minimum wage was correctly predicted using analyses of the employment and participation effects. Those who have tended to dismiss statistical arguments and evidence on the adverse character of the minimum wage have found traditional comfort in the poor relationship between unemployment and the minimum wage. However, this study indicates quite clearly that, by looking at the determinants of unemployment, there exists clear evidence, not only of the adverse impact, but also of the reasons for seemingly ambivalent results.

On balance, the employment related effects of the minimum wage in the restaurant industry are conclusively negative. Insofar as the food service industry provides the bulk of teenage employment opportunities, increases in the minimum wage eliminate opportunity and systematically exacerbate the long-standing problem of non-white teenage unemployment.

V. WAGE AND PRICE EFFECTS

For workers who retain their employment status, increases in the minimum wage will produce wage-related effects on their compensation. Workers currently paid the minimum wage will receive a direct increase in their wage and workers near the minimum will receive more as employers endeavor to maintain relevant pay differentials. This second effect, termed emulation in the literature, also works to increase the wages of other union and non-union workers whose wages are related or ties in any way to the minimum wage. This set of wage-related impacts has direct consequences for wage and price inflation.

One caveat is important. In the treatment that follows the term inflation refers to the process of continual increases in the general level of wages and prices. In this respect, a once and for all increase in the price of a product or the wage of a particular group of laborers is not inflation. Inflation is a dynamic process which requires changes in many prices and wages period after period. However even though a particular price or wage increase is not inflation, that same change can be inflationary if it 1) is part of a broader increase in prices or wages, 2) alters the expectations of consumers, workers, or business about the level of future prices and wages, or 3) has feedback effects on the prices or wages in related commodities or employment. Thus, minimum wage increases can be inflationary if 1) they occur at a time of generally rising wages, 2) they are passed through to consumers in a period of rising prices, or 3) they have significant emulation or feedback effects on the wages of other workers.

Estimates of the impact of minimum wage changes on aggregate wage inflation obtained from quarterly data are adequately summarized in Gramlich's study. Updating his work does not alter the relative impacts of various explanatory factors significantly. However, two relevant questions remain. Does the impact of the minimum wage relative to other factors change if we restrict our attention to wage inflation in the restaurant industry? Does the use of monthly data on major economic variables alter previous conclusions? The first question is clearly germane to our discussion and should offer evidence on the thesis that data disaggregation clarifies the nature of legislative impacts. The second question directs attention to the timing as well as the magnitude of minimum wage impacts. Just as the trained scientist uses more powerful microscopes to study sub-visual phenomena, so too should the policy analyst investigate the timing of economic phenomena using more frequently gathered data. For example, if the entire change in total employment associated with an increase in wages occurred within a particular quarter, by studying quarterly data, we would have no ability to infer whether the change occurred uniformly or unevenly across the three months. The use of monthly data to study industry-specific minimum wage impacts is an explicit recognition that most changes in compensation, employment, and prices occur quite rapidly.

The other major determinant of total employee compensation is the number of hours worked. Leaving aside questions of productivity for the time being, changes in the unit cost of labor can and do cause two changes in the production process. In the long run, labor saving capital or operating arrangements are employed. The example of the self-serve restaurant and growth in the salad bar concept serve to illustrate long run changes in capital or operating policy designed to economize on labor. Moreover, in the short run, firms faced with labor cost increases economize on its employment by altering the mix or responsibilities of full vs. part-time employees, reducing set-up or knock-down time, or increasing average worker productivity by slowing new hiring or increasing the tasks assigned to each employee.

Statistically, we would expect that average weekly hours of restaurant employees should vary with the volume of real output, the level of the minimum wage, and the level of worker productivity. Without a measure of monthly productivity, a time trend was used to proxy trends in worker productivity.

The results clearly indicate the negative trend in worker productivity and the adverse impact of minimum wage changes on the hours of restaurant employees. Using a distributed lag specification to infer timing as well as magnitude, real output changes in the current and previous quarter appear to have the greatest impact. Over a six month horizon, a 14 percent change in real output will induce a 1 percent change in average weekly hours. Over a three month horizon, the same 1 percent change in average weekly hours is occasioned by a 5 percent change in real output. This fact is in accordance with traditional reasoning that labor is a variable factor whose employment can be used in the short run to bridge between changes in the levels of other factors of production.

The impact of changes in the CPI-deflated minimum wage has similarly dramatic implications for average weekly hours. The major adjustment appears to occur by the third month following the change in the wage. Peak periods of adjustment occur in the concurrent month and five months following the change. This last period appears to be a reflection of the typical January timing of increases and employment decisions made during school vacation periods. The magnitude of monthly adjustments indicates that a 7 percent change in the minimum wage will produce a 1 percent change (in the opposite direction) in average weekly hours. The statistical evidence clearly indicates that employers economize on the use of labor through varying the degree as well as the level of employment. Thus, an increase in minimum wages does not pass directly to low-wage workers. By altering the structure of hours, restaurants can and do avoid a portion of cost increases mandated in minimum wage legislation.

The remaining portion of the cost increase can be either absorbed into profit margins or passed through to restaurant patrons. In theory, changes in unit labor costs, average weekly hours, or the number of laborers can all lead to cost increases or decreases when the minimum wage changes. By including variations in hours and employment in the explanation of food service prices, we avoid the criticism that compensating changes in labor use fully offset the impact of minimum wage changes on the price index for food away from home. Indeed, the statistical results indicate that all variables significantly impact the price index. The peak impact usually occurs between two and three months following a change in minimum wages. Roughly speaking, a 4 percent increase in minimum wages will produce a 1 percent change in the price index for food away from home. This impact, which takes changes in the degree and level of employment, is roughly twice as large as the impact of changes in the number of persons employed and seven times as large as that of changes in average weekly hours.

On balance, the impact of minimum wage legislation on price-wage conditions is clearly adverse. In an environment where an increasing fraction of consumer meals are being taken in an away from home context, the inflationary impact of a minimum wage increase is enhanced by the "quasi-necessity" of restaurant meals. The influence upon consumer discretionary income and expectations about inflation provides one vehicle for the translation of minimum wage increases into a full-fledged cause of inflation. The second, the direct and emulative impacts upon wage inflation, is also crucial in an environment of labor market tightness, or generalized wage inflation. In the short run, restaurateurs can economize on the use of labor, but in the long run, as consumers shift preferences toward meals away from home, more expensive capital or service improvements are dictated in this increasingly competitive market. Increases in prices which follow have predictable consequences upon small-scale, independent operations. As firms fail, the market concentrates and the pressures of competitive markets upon inflation are weakened further.

VI. THE MINIMUM WAGE AND BUSINESS FAILURE

The unifying theme of the evidence presented thus far is that large changes in the level of the minimum wage produce significant displacements in the restaurant industry and in the labor markets which traditionally supply restaurant workers. Impacts on the operating profitability of restaurant facilities are difficult to establish given the paucity of data available in the time series form. Some information on the fraction of business costs attributable to employee compensation is available from independent surveys. Use of this data to form models of individual site profitability overlooks the obvious heterogeneity in operating environments across industry categories. Until more reliable data on the performance of individual units is obtained, more systematic investigation of the direct impacts of the minimum wage is precluded.

If the investigation of financial implications of the minimum wage is temporarily infeasible, all is not lost. Information about a particularly interesting subset of operating restaurants, namely those that file for bankruptcy is available. Any number of potential hypotheses about the impact of minimum wage legislation upon business failure might be investigated. One of particular saliency is that the minimum wage could provide the proverbial straw to the camel's back in times of ordinary duress. Ordinarily, business failure will occur for either of two reasons. First, insufficient revenue dollar volume to cover accounts payable for the foreseeable future usually prompts bankruptcy or foreclosure. Second, short term increases in operating costs create cash needs which exceed existing credit limits. Long term decisions to enter or leave the industry will depend upon an expected long run profit margin. We will disregard these business decisions as they are typically influenced by a multitude of qualitative and quantitative influences.

To test this hypothesis a regression of business failures upon the volume of sales, time, and the level of the minimum wage was performed. To account for the ability of operations to postpone final filing, each variable was treated in distributed lag form. As intuition would suggest, business failure is closely related to changes in gross industry revenues and changes in the minimum wage. Revenues produce their greatest impact in the current month and in the month five months prior to failure. Minimum wage changes produce their strongest effect between five and six months prior to failure. The minimum wage appears to have twice the impact of revenues in the explanation of business failure. This result supports the theory that increases in costs are the typical cause of business bankruptcy decisions. Declines in revenues can be funded through short run borrowing, unless they are prolonged, but large increases in costs predicate a more extreme response.

There are, however, qualifications to this conclusion. The first is that the statistical results are less clear cut than might be desirable. The likely reason is that the revenue and cost effects should have different magnitude and timing. A statistical relationship which combines the two is likely to capture an average effect which is less directly related to minimum wage changes. The second major limitation related to the fact that business failures have occurred in predominantly smaller, or regional, operations. The use of gross industry revenues measures this important composition factor inadequately. Unfortunately, the extension of this analysis to specific industry segments is not possible with current data limitations. Further investigation of cost magnitudes is limited by a similar lack of data. There are, however, rough conclusions which can be assembled from available data.

As regards operating costs, the chief short run variable costs to the restaurant industry are labor and food materials. Hedging positions on food purchases can smooth the size of this cost variance. Additionally, rising food costs are typically a part of an overall inflationary environment and operators are more able to pass on these costs without compensating customer count changes. Labor costs occasioned by economic growth do not present problems, but those which arise with minimum wage changes can. Even with compensation in average employee hours, the impact of short run wage changes can be profound. Using the estimated elasticities of hours, employment, and prices with respect to changes in the minimum wage, straightforward calculation yields the result that a 1 percent increase in the minimum wage increases typical labor costs .58 percent. Given the .23 percent increase in prices attending the same minimum wage change, and assuming that increases in prices do not result in lower customer counts, the net impact is .35 percent increase in labor costs over and above those which are covered by short run price increases. The obvious impact upon operating margins undoubtedly contributes to business failure.

An analysis of the simultaneous impact of revenue changes and cost changes upon business failure is in accordance with economic expectations. The impact, in percentage terms, of cost increases is roughly twice that of revenue decreases. The timing of the two effects differs as well. Cost increases occasioned by minimum wage legislation tend to occur immediately (in the current quarter) or after a four or five month lag. This lag typically arises from the lag between legislative implementation and the following summer's employment season. Revenue shortfalls, however appear to have their greatest impact distributed evenly over a six-month interval.

This result is very provocative. One potential research opportunity is an analysis of profitability across major types of restaurants. The results above indicate that fairly substantial swings in business viability can be expected depending upon

- 1) the amount of labor typically employed
- 2) the ability to compensate for wage increases by altering hours or raising prices
- 3) the financial reserves of the firm or chain in question.

Just as the evidence on employment effects suggested a systematic deleterious impact upon non-white teenagers, the results presented above suggest that minimum wage legislation is less harmful to the large, financially powerful restaurant chain with a low service component in its typical establishment. From the standpoint of industrial organization, the minimum wage works adversely in the promotion of competition and free enterprise.

VII. EVIDENCE FROM CROSS-SECTIONAL SURVEYS

The major remaining question from the standpoint of minimum wage impacts is the distribution of benefits to individual workers or demographic groups typically employed by the restaurant industry. Time-series information indicates that increases in the minimum wage have clear employment, hours, and business failure impacts. Time-series information alone, however, cannot provide the data needed to infer whether

the benefits of higher wages reach those individuals who are most in need. Here, the use of broad cross-sectional data from the Current Population Survey is appropriate. The Survey is an annual update performed by the Bureau of Census to monitor economic and demographic shifts in the nation's population. Coincidentally, the Survey also contains a wide range of data on labor force behavior, typical work environment, and the incomes of all family members.

A single previous study of the entire survey by Gramlich revealed that roughly 65 percent of all additional wages resulting from a minimum wage increase accrue to households earning more than the median income for all families. This surprisingly strong result indicates that those least able not only bear the costs of increased unemployment, but also derive less than their share of benefits. Gramlich concluded that the total redistributive impact of minimum wages was inconsequential at an aggregate level.

Of particular impact in the present case is the question whether or not the restaurant industry's employees benefit in a redistributive sense from minimum wage legislation. Short of promulgations affecting the mix of new employees, the redistributive impacts of minimum wage legislation will depend upon the current composition of the restaurant workforce. The relevant questions for consideration are:

- 1) Who are full-time, and who are part-time workers? What can we say about the income of their household, their contribution to total income, and the number of hours they typically work?
- 2) Similarly, what can be said about these variables among workers of different ages in the industry?
- 3) What can be said about workers from different classes of household income?
- 4) What can be said about the relationship of the worker in question to his/her family? Is the person a head, spouse or child?
- 5) What can be said about the racial composition of restaurant employees and their economic position? Do sufficient benefits accrue to minority groups, who bear the employment burden, to justify minimum wage legislation?

Other questions about the dynamic effects of minimum wage legislation such as what disemployed workers do in terms of labor force participation require a large-scale time series analysis of many years of data from the Survey. Within the constraints of time and cost, several years of the Survey were compared for qualitative agreement or differences. The final results of each analysis revealed little difference over time in the questions presented above. This increases the evidentiary value of the material that follows. The supporting statistics for these arguments are presented from the 1976 Current Population Survey.

In terms of full and part-time employment for full year workers, the restaurant industry employs roughly two full-time workers for each part-time worker. Among part year workers, roughly three out of five workers are employed on a part-time basis. Across all employment categories, workers under the age of 18 are predominantly part-time and typically account for less than 10% of total household income. Workers between 18 and 21 are typically employed part-time, but their earnings are roughly one-fifth of total household income. Those 22 and over are typically full-time employees and earn roughly two-fifths of their household income in the restaurant industry. Among all age groups, 40 percent are over 29 and 60 percent are over the age of 31.

Looking across income, rather than age groups, full-time employees are evenly distributed across four major classes. Part-time employees are heavily concentrated among the upper income class. Lower income individuals tend to be employed on a full-time basis evenly distributed between full year and seasonal employment. Roughly 60 percent of the workers in the industry come from families where household income is above \$12,500. In these families, the income of restaurant employed workers accounted for roughly 20 percent of total household income. Among the wealthy, this figure was 16.4 percent. On the other hand, among low income families, approximately 60 percent of household income is attributable to the earnings of the restaurant worker. Twenty-two percent of the restaurant industry's employees fall in this low income category.

In terms of hours, across age groups, there appears to be little variation in the number of hours worked by full-year or seasonal part-time employees. There does appear to be a significant difference in the number of hours worked in full time positions by full-year or seasonal employees. This could be an indication that full-time seasonal employment is one area where hours reduction is used to offset the impact of minimum wage increases. Similarly, a profile of hours in part-time employment varies directly with age, the youngest typically working the fewest number of hours, either full year or seasonal. A similar trend is found among full-time employees. This suggests that the hours of younger workers are probably a source of cost-reducing hours curtailment.

Again, across income classes, hours tend to be significantly higher in all income segments for full year as opposed to seasonal workers. Simultaneously, the number of hours worked in any particular employment category decreases as household income rises. Whether or not the causal relations between income, hours worked, and the likelihood that a worker will have hours curtailed can be determined, a strong case can be made that no single determinant is likely to characterize an employee whose average work week might be curtailed. Without supplemental data on actual wages earned by these workers, the results presented above suggest, but do not prove that

- 1) Seasonal workers bear the burden of the hours curtailment which accompanies a minimum wage increase
- 2) Young workers are more likely, in any particular category, to bear an employment adjustment burden
- 3) Restaurant workers typically come from families with higher household incomes. Thus, any adjustment in employment or wages received will be borne by these families.

A second major issue is the racial composition of the restaurant workforce. Approximately 88 percent of the workforce is white, 8 percent is black, and the remaining 4 percent other non-white individuals. Several interesting facts stand out from a comparison of white and black hours, incomes, and earnings contributions across income classes and work categories.

- 1) In lower income categories, whites have slightly greater average hours. However, in upper income categories, black workers have greater hours. In all groups but the lowest income group, black worker's restaurant incomes are a higher fraction of household income than their white counterparts.
- 2) White workers have higher average hours in each employment segment, with the exception of the part-time, seasonal group.
- 3) White workers are predominantly upper income (60 percent), while black workers are typically lower income (70 percent).
- 4) White workers are evenly distributed between full-year and seasonal employment, black workers are primarily full-year employees. Part-time, full year black employees earn a significantly larger fraction of household income than their white counterparts.
- 5) Black workers in any employment category have lower average household incomes. However, across income groups, their average household income is comparable to that of whites.

Black teenagers' earnings seem to be systematically larger fractions of total household income (among 16-17 year olds, roughly twice as much). Other points of interest are presented below

- 1) Black teenagers have shorter hours in all employment classes other than part-time, full year.
- 2) Black, 16-21 year olds typically work shorter hours in all income classes, with the exception of the uppermost income group.
- 3) Workers from the same group tend to come from lower income groups than their white counterparts, work longer hours, and contribute larger fractions to household income.

The tentative conclusion is that lower income, black teenagers

- 1) receive a small fraction of the current industry wage bill,
- 2) work longer hours in jobs of a part-time or seasonal nature,
- 3) contribute a larger fraction to total family income, and
- 4) come from families at the lower end of the economic continuum.

Consequently, the benefits of a minimum wage increase are likely to accrue to workers who are not in this category. In light of the labor force participation effects outlined above, serious questions about the positive redistributive impact of the minimum wage are raised.

The last area for investigation is the relation of the worker to the head of household. If all workers are children rather than household heads, the positive redistributive impact associated with minimum wage increases is reduced. In fact, over one-third (34 percent) of all workers are children in their household, 24 percent are working wives, 11 percent are unrelated individuals living in a multi-unit household, and 22 percent are household heads. As expected, heads are typically full-time, full year employees and children are part-time employees. Interestingly working wives fall into the two extremes of job status — full-time, full year and part-time, seasonal.

In terms of income, household heads are typically low income, wives are middle to upper income, and children are upper income household members. Household heads contribute 56 percent of the average household's income, wives contribute 22 percent, and children produce roughly 10 percent of household income. Unrelated individuals contribute almost three-quarters of their household's income, a figure inflated by the number of individuals in the lowest income class.

On the whole, restaurant workers who are household heads tend to work longer hours and contribute more to household income than other groups of family workers. The large number of children employed by the industry and the number of workers who are wives reduce the redistributive impact of wage support programs. Multiple earner households, a sociological phenomenon of the 1970's, decrease the incremental impact of minimum wage legislation even further.

VIII. SUMMARY

The sheer volume of statistical information summarized in this study would preclude the trained analyst from expecting a reasonably uniform set of conclusions. Within the limits of economic and business reasoning and the traditional practice of econometrics, however, several conclusions are suggested by this work

- 1) the minimum wage clearly impacts the restaurant industry in accordance with the expectations of economic theory and previous research.
- 2) in particular, impacts on employment, average weekly hours, prices, wage inflation in the relevant labor market, and business performance all indicate a clear negative impact to continued minimum wage increases.
- 3) Results suggested by previous aggregate studies are confirmed when data are disaggregated both by industry and data frequency.
- 4) Cross-sectional evidence reinforces the conclusions of earlier studies. The redistributive impact of minimum wage legislation to the economically needy is quite small.
- 5) Conclusions from cross-sectional study, when considered in conjunction with time series evidence on the labor market impacts of minimum wage increases, support the conclusion that minimum wage legislation systematically costs non-white, teenager workers and their families without providing substantial compensating benefits.

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Statistical Appendix
available from

National Restaurant Association
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Washington, D.C. 20006

NATIONAL
RESTAURANT
ASSOCIATION

IMPACT OF CHANGES IN MINIMUM
WAGE RATES ON AWAY FROM HOME FOOD COST,
WAGES AND EMPLOYMENT IN RESTAURANT INDUSTRY

by

Chase Econometrics

Results:

The results indicate that a 10% increase in real wage rates reduces the number of forty man-hour equivalents per unit by 9.8%. In 1980, the industry averaged 10.05 forty hour man equivalents per restaurant. Therefore, this 10% increase reduces the number of man hour equivalents by .98 per restaurant.

There are 309 thousand restaurants in the United States, therefore, a 10% increase in real wages would reduce the number of forty man hour equivalents in the industry by 303 thousand. However, not all increases in wage rates within the industry can be attributed to increases in minimum wages. This analysis indicates that wage rates are influenced both by overall inflation, as measured by the consumer price index, and by increases in the minimum wage rate. A 10% change in the minimum wages, holding the consumer price index constant, increases wage rates within the industry by 3.6%. Thus, a 3.6% increase in wage rates, assuming constant inflation, would reduce employment in the industry by 112 thousand forty man-hour equivalents.

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Therefore, a 10% increase in minimum wage rate reduces forty man-hour equivalents in the restaurant industry by 112 thousand.

In summary, this analysis appears to be much more consistent with the changes which have occurred in the restaurant industry over the last decade. The following major shortcomings of previous econometric research have been overcome:

- 1.) The inability of previous research to incorporate into the analysis the impact of changes in both the number of hours worked and number of employees.
- 2.) It minimizes the impact of fast-food restaurant unit expansions in the past decade by developing the analysis on a forty hour man equivalent per restaurant basis.

The impact of minimum wage rate on away from home food inflation is still equal to previous research in that a 4% increase in minimum wage increases food inflation by approximately 1%.

1/81

$LOG(EMP58SA*HRS58SA/40/NRESTMA) = C0 + C1*LOG(RESTAT(-1)/NRESTMA(-1)/CPAWYS(-1)) + C2*LOG(WRR58/PCIUS)$

NOP = 34 NQVAR = 4
 RANGE = 72.2 TO 80.3
 R54 = 1.989 CR54 = 0.950 F(3/30) = 99.66
 SFF = 0.0059 SSR = 2.500E-02 DW(3) = 0.25 R2AD = 142%
 PCT SEF = 1.15 DEPENDENT H5AN = 2.16702

CORF	VALUE	ST. ER	T-STAT	MEAN
C0	1.10870	0.79233	1.40	1.27000
	DEGREE = 2	LASS = F	OPTION = TAIL	
L1(-)	0.01087	0.13441	0.08	-1.37879
L1(-1)	0.1P322	0.07518	2.44	-1.32091
L1(-2)	0.30595	0.03342	9.16	-1.32270
L1(-3)	0.37004	0.02706	14.01	-1.35565
L1(-4)	0.40253	0.04156	9.59	-1.35777
L1(-5)	0.37632	0.04563	7.52	-1.35994
L1(-6)	0.30052	0.04559	6.59	-1.40304
L1(-7)	0.17907	0.02413	6.01	-1.40624
C2	-0.37731	0.1P525	-5.42	-4.17423

POLYNOMIAL STATISTICS AND COEFFICIENTS

TERM 1 MEAN LAG = 3.962 ST. ER = 0.409
 SUM OF LAG COEF. = 2.133 ST. ER = 0.166

$LOG(EMP58SA*HRS58SA/40/NRESTMA)$
 = Log of forty man-hour equivalents per restaurant.

$LOG(RESTAT(-1)/(RESEAT(-1)/NRESTMA(-1)/CPAWYS(-1))$
 = Log of restaurant sales per restaurant deflated by the consumer price index for food away from home lagged one quarter

$LOG(WRR58/PCIUS)$
 = Log of wage rate in restaurant industry deflated by the total consumer price index

$$\text{LOG(WRR58)} = C1 \cdot C1 \cdot \text{LOG(MNWG)} + C2 \cdot \text{LOG(PCIUS)}$$

NOB = 54 NOVAR = 3
 RANGE = 17 2 TO 86 3
 RSQ = 0.994 CRSG = 0.994 F(2/51) = 4495.19
 SER = 0.0207 SSR = 2.181E-02 DW(0) = 0.48 COND = 455.
 PCT SER = 2.45 DEPENDENT MEAN = 0.64274

COEF	VALUE	ST ER	T-STAT	MEAN
C0	-2.23354	0.26151	-8.54	1.00000
C1	0.36038	0.04781	7.54	0.48769
C2	0.57482	0.05801	9.91	4.96327

LOG (WRR58) = Log of wage rate in restaurant industry.

LOG (MNWG) = Log of minimum wage rate.

LOG (PCIUS) = Log of consumer price index.

$$\text{LOG(CPAWYS/PCIUS)} = C1 \cdot C1 \cdot \text{LOG(WRR58/PCIUS)} + C2 \cdot \text{LOG(1/WPIT)}$$

NOE = 67 NOVAR = 3
 RANGE = 68.1 TO 80.3
 RES = 7.976 CRSS = 0.976 F(2/44) = 1285.54
 SER = 7.92E-03 SSR = 3.314E-07 D'FID = 0.65 CONN = 582.
 OCT SER = 1e-50 DEPENDENT MEAN = 0.08271

Coeff	VALUE	ST ER	T-STAT	MEAN
C0	1.32743	0.00417	12.92	1.00000
C1	0.57438	0.01107	20.67	-4.16597
C2	-0.10459	0.01732	-31.54	-4.92276

LOG (CPAWYS/PCIUS) * Log of the consumer price index for food away from home divided by the overall consumer price index.

LOG (WRR58/PCIUS) * Log of the wage rate in the restaurant industry divided by the overall consumer price.

LOG (1/WPIT) * Log of the inverse of the wholesale price index.



WASHINGTON REPORT

August 29, 1980
Volume 23, Number 32

NRA survey shows minimum wage's effects on restaurants

According to a recently completed NRA study, increases in the federal minimum wage this year caused nine out of 10 restaurant operators to increase menu prices, seven out of 10 operators to cut back on employee hours and five out of 10 operators to reduce the number of employees in their establishment.

The study, undertaken by the NRA's Research Department, is based on 504 responses to a minimum wage questionnaire that appeared in the June 11, 1980 *Washington Report*. On January 1 of this year, the federal minimum wage went from \$2.90 an hour to \$3.10 an hour, an increase of 6.9 percent. At the same time, the maximum allowable tip credit was lowered from 45 percent to 40 percent. The questionnaire asked NRA members what effect these changes had on their operations during the year.

Asked what they did to accommodate the minimum wage increase, 88 percent of those responding said they increased menu prices, 71 percent said they reduced the number of employee hours and 48 percent said they reduced the number of employees. (See Chart 1 on page 3 for a more detailed analysis.)

Asked what effect the minimum wage had on their profits this year, nearly three-quarters (74 percent) of the operators (See *EFFECTS*, page 3)

Effects of minimum wage on restaurants surveyed

(Continued from page 1)

who responded said they experienced profit declines which they feel are attributable to the minimum wage increase.

Eighty-six percent of the operators participating in the sur-

Chart I

In order to accommodate the 1980 minimum wage increase, what action did you take?

	1979	1980
Reduced number of employee hours	72%	71%
Reduced operating hours	22%	21%
Added self service salad bars	14%	14%
Hired students at 85% minimum wage	16%	14%
Increased menu prices	92%	86%
Added labor saving equipment	28%	26%
Reduced staff	46%	48%

vey said they employ teen-agers in their establishment. Asked if they changed the number they employ as a result of the minimum wage increase, 29 percent said they reduced the number of teen-agers they employ, five percent said they increased the number and 62 percent said the minimum wage

Chart II

As a result of the minimum wage increase, have you changed the number of teen-agers you employ?

	1979	1980
Increased	5%	5%
Decreased	32%	29%
No change	57%	62%
No answer	6%	4%

increase had not caused them to change the number of teen-agers they employ. (See Chart II.)

Eighty-four percent of the operators who answered the 1980 questionnaire agreed that it was necessary to increase payroll

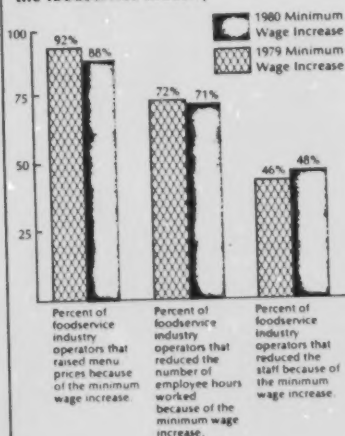
(See MINIMUM, page 7)

Chart III

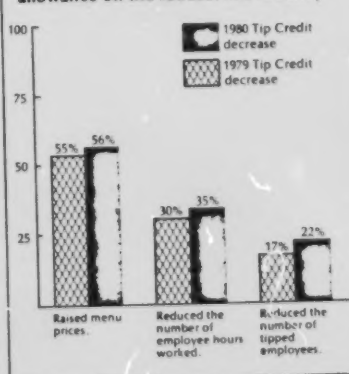
Has the reduction in the maximum allowable tip credit caused you to:

	1979	1980
Reduce hours worked for tipped employees	30%	35%
Reduce the number of tipped employees	17%	22%
Reduce operating hours	13%	14%
Add self service (salad bars, etc.)	9%	10%
Hire students at 85% of the minimum wage	6%	7%
Increase menu prices	55%	56%
Add labor saving equipment	15%	15%

Impact of minimum wage increases on the foodservice industry



Impact of reductions in tip credit allowance on the foodservice industry



Minimum wage survey results

(Continued from page 3)

levels for employees other than those covered by the minimum wage as a result of the increase. The 1979 survey showed that 86 percent of the operators found it necessary to increase payroll levels other than the minimum wage.

Sixty-seven percent of those responding to the survey said they have tipped employees for whom they are taking a credit. Asked how the reduction in the maximum allowable tip credit affected their operation, 56 percent said they increased menu prices, 35 percent said they reduced the number of hours worked for tipped employees and 22 percent said they reduced the number of tipped employees. (See Chart III.)



Longitudinal Study of Young Americans

The following expands upon some of the more interesting points in the summary of "Pathways to the Future: A longitudinal Study of Young Americans" by Michael E. Borus, Joan E. Crowley, Russell A. Rumberger, Richard Santos and David Shapiro of the Center for Human Resource Research, Ohio State University.

Chapter 11 concerns willingness of students to work. When asked whether they would take each of seven full time jobs at three alternative wage rates, black youths were found to be significantly more willing to accept private employment at each wage level than were whites. For Hispanics results were mixed.

The three wage levels used were \$2.50, \$3.50 and \$5.00. Among the seven full time jobs two were in the foodservice industry: washing dishes and working at a hamburger place.

The attached table shows that 30.8 percent of students 14-21 years of age said they would work at a hamburger place for \$2.50 an hour. Thus, over 6.5 million* teenagers attending school are willing to work at a hamburger place for less than the minimum wage. Among the 5 private industry jobs cited working at a hamburger place ranked second to working at a supermarket checkout counter for those willing to work at \$2.50. Washing dishes at \$2.50 was not as well received although 21.0 percent or 4.4 million* stated they would take a dish washing job at \$2.50.

Willingness to accept subminimum wages was inversely related to age. Among 14 to 15 year olds, 63.9 percent said they would work in a hamburger place for \$2.50; however, the proportion dropped to 11.1 percent for those 20 to 22.

Proportion of students willing to work at \$2.50 per hour by age.

Washing Dishes

	14-15	16-17	18-19	20-22
%	42.1	24.2	12.9	8.6

Work at Hamburger Place

	14-15	16-17	18-19	20-22
%	63.9	38.0	16.2	11.1

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-2-

Willingness to Work by Employment Status for those 16 to 21.

The proportion of employed youths willing to accept jobs at \$2.50 was substantially lower than for those unemployed or out of the labor force.

Proportion of youths willing to work at \$2.50 per hour by Employment Status.

Washing Dishes

	Employed	Unemployed	Out of Labor Force
%	9.0%	28.4%	22.0%

Work at Hamburger Place

	Employed	Unemployed	Out of Labor Force
%	14.6%	35.9%	30.3%

Willingness to Work by Education Status

The percent of youths enrolled in college and of high school graduates not in school willing to accept jobs at \$2.50 was lower than for high school students and dropouts.

Among youths enrolled in high school, three jobs were very popular at \$2.50: working at a checkout counter in a supermarket (49 percent), working away from home at a national forest or park (46 percent) and working at a hamburger place (48 percent).

Mean Wage Rates

Service worker	\$3.16	(most foodservice included here)
All workers	\$3.47	

"It appears likely that employment experience gained as a student facilitates subsequent success in the labor market. To the extent that this is indeed the case, the large racial gap in employment rates of young students implies that minority youths (as well as those from low income backgrounds) will be at a serious disadvantage by the time they finish school. Programs that would enable these youths to more easily gain valuable work experience could ... play a key role in reducing racial differences in labor market success."

- * There is some confusion about the figures computed for youths willing to work at \$2.50. At one place in the preliminary

-3-

report the data refer to those enrolled in school while another paragraph shows the universe to be all youth 14 to 22. Estimates given here are based on those enrolled in school. In the event that the percentages actually refer to all youths, those willing to work in a hamburger place for \$2.50 actually number more than 10 million and those willing to work as dishwashers total 6.9 million.

cc: P. Pinto

3/80

Persons enrolled in school were asked if they would accept full-time jobs if offered in the summer.

Washing Dishes

Willing to work at:

	Male	Female	Black	Hispanic	White	Total
\$2.50	21.2%	20.9%	33.8%	24.4%	18.6%	21.0%
\$3.50 but not \$2.50	19.1%	20.8%	23.3%	22.0%	19.2%	19.9%
\$5.00 but not \$3.50	21.4%	20.7%	19.3%	18.3%	21.7%	21.2%
Not at \$5.00	38.3%	37.4%	23.6%	35.3%	40.5%	37.9%

Working in Factory

	Male	Female	Black	Hispanic	White	Total
\$2.50	17.7%	22.2%	32.4%	22.7%	17.6%	19.9%
\$3.50 but not \$2.50	24.7%	25.4%	31.5%	30.0%	23.5%	25.0%
\$5.00 but not \$3.50	24.0%	23.8%	19.2%	20.3%	25.0%	23.9%
Not at \$5.00	33.6%	28.6%	16.4%	26.7%	33.9%	31.1%

Work as Cleaning Person

	Male	Female	Black	Hispanic	White	Total
\$2.50	20.0%	19.7%	28.5%	20.7%	18.3%	19.8%
\$3.50 but not \$2.50	17.8%	18.6%	22.3%	20.6%	17.3%	18.2%
\$5.00 but not \$3.50	22.6%	21.9%	21.2%	18.8%	22.7%	22.3%
Not at \$5.00	39.6%	39.9%	28.0%	40.0%	41.7%	39.7%

Checkout Counter at Supermarket

	Male	Female	Black	Hispanic	White	Total
\$2.50	37.9%	29.0%	45.2%	36.4%	31.2%	33.4%
\$3.50 but not \$2.50	30.4%	22.1%	28.5%	29.8%	25.6%	26.3%
\$5.00 but not \$3.50	15.9%	18.4%	14.1%	15.3%	17.9%	17.2%
Not at \$5.00	15.8%	30.5%	12.2%	18.5%	25.4%	23.1%

Work at Hamburger Place

	Male	Female	Black	Hispanic	White	Total
\$2.50	32.7%	29.0%	44.3%	32.6%	28.4%	30.8%
\$3.50 but not \$2.50	22.0%	19.9%	25.3%	25.1%	19.9%	21.0%
\$5.00 but not \$3.50	15.4%	16.4%	13.2%	13.6%	16.5%	15.9%
Not at \$5.00	30.0%	34.7%	17.2%	28.7%	35.2%	32.3%

-2-

Cleaning up Neighborhoods

	Male	Female	Black	Hispanic	White	Total
\$2.50	20.7%	24.3%	22.8%	18.3%	22.8%	22.5%
\$3.50 but not \$2.50	18.3%	19.3%	21.1%	18.5%	18.4%	18.8%
\$5.00 but not \$3.50	20.4%	21.8%	22.7%	20.9%	20.8%	21.1%
Not at \$5.00	40.6%	34.6%	33.5%	42.3%	37.9%	37.6%

Away in Park or National Forest

	Male	Female	Black	Hispanic	White	Total
\$2.50	35.4%	40.4%	29.8%	29.6%	39.9%	37.9%
\$3.50 but not \$2.50	17.3%	18.4%	19.0%	16.7%	17.8%	17.9%
\$5.00 but not \$3.50	16.3%	20.3%	20.9%	18.3%	17.9%	18.3%
Not at \$5.00	31.0%	20.9%	30.3%	35.4%	24.5%	26.0%

NATIONAL
RESTAURANT
ASSOCIATION

April 1, 1981

The Honorable Don Nickles
United States Senate
Washington, D.C. 20510

APR 01 1981

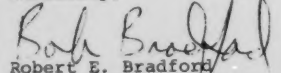
Dear Senator:

Thank you again for inviting the National Restaurant Association to appear before the Senate Labor Subcommittee on the youth opportunity proposals.

In the course of the hearing, you asked me for figures on minimum wage coverage in the restaurant industry. I attach herewith the most current figures available. While these figures show that only 36% of eating and drinking places are covered by the federal minimum wage, those covered establishments employ 73% of all eating and drinking place workers.

If you need other information, please let me know. Thank you again for your courtesy.

Sincerely,


Robert E. Bradford
Executive Vice President

REB:ab

Enclosure

cc: Susan Mills

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MINIMUM WAGE COVERAGE STATUS OF EATING
AND DRINKING PLACES

New data from a 1978 Bureau of Labor Statistics Wage Distribution Survey describe the number of establishments and employees in FLSA covered and noncovered eating and drinking places. The data are summarized as follows:

- 286,000 eating and drinking places are enumerated of which 103,000 or 36 percent are covered by the Federal minimum wage.
- 113,000 units have tipped employees of which 50,000 or 44 percent are covered.
- 262,000 establishments have nontipped employees, 38 percent or 100,000 of which are covered.
- While only 36 percent of eating and drinking places are covered by the Federal minimum wage, 2,833,000 or 73 percent of all eating and drinking place employees work in covered units.
- Tipped eating and drinking place employees number 1,050,000 of which 759,000 or 72 percent work in covered establishments.
- The figures confirm the dominance of eating and drinking places among all industries where tipped employees are concerned. 50,000 covered eating and drinking places have tipped employees while only 16,000 service establishments have tipped employees.

A look at March 1970 figures from "Cash Wages and the Value of Tips of Tipped Employees in Eating and Drinking Places and Hotels and Motels", a Labor Department study, lends perspective to the coverage question. These figures indicate that coverage in our industry is expanding dramatically.

- As of March 1970, 20,370 eating and drinking places were covered by the Federal minimum. In only eight years, the number of covered establishments increased by 5 times to 103,000 in 1978.
- The number of eating and drinking place employees covered by the Federal minimum more than tripled from 869,201 to 2,833,000 in 1978.

Table Distribution of Retail and Service Firms and Workers
by FLSA Coverage Status, 1978

Sector	Establishments			Workers		
	Total	Covered	Non Covered	Total	Covered	Non Covered
	thous			thous		
	(row percent in parenthesis)			(row percent in parenthesis)		
Retail Trade (exclude eat- ing and drink- ing places)	803 (100)	441 (55)	362 (45)	8,416 (100)	7427 (88)	1009 (12)
Eating and drinking places	286 (100)	103 (36)	184 (64)	3861 (100)	2833 (73)	1028 (27)
Tipped	113 (100)	50 (44)	63 (56)	1050 (100)	759 (72)	291 (28)
Non Tipped	262 (100)	100 (38)	162 (62)	2811 (100)	2074 (74)	738 (26)
Services	1244 (100)	706 (87)	537 (43)	11,618 (100)	9487 (82)	2131 (18)
Tipped	46 (100)	16 (35)	30 (65)	383 (100)	265 (69)	119 (31)
Non Tipped	1225 (100)	704 (58)	521 (42)	11,235 (100)	9223 (82)	2012 (18)

Source: U. S. Department of Labor, BLS, Wage Distribution Survey, 1978

Senator NICKLES. Our fourth and final panel will be Dr. Osterman, who is professor of economics at Boston University. We also have Robert Gallione, who is from the legislative committee of the National Association of Student Employment Administrators; Frank Viggiano, who is executive director of the U.S. Student Association; and William Grinker, who is president of the Manpower Demonstration Research Corp.

Are you Mr. Grinker?

Mr. OSTERMAN. I am Osterman.

Senator NICKLES. You are Osterman.

Is Mr. Grinker here?

[No response.]

Senator NICKLES. Would you do me the kind favor of identifying yourselves one more time?

Mr. VIGGIANO. Frank Viggiano.

Senator NICKLES. Are you the U.S. Student Association?

Mr. VIGGIANO. U.S. Student Association.

Senator NICKLES. OK.

Mr. PITTMAN. Curtis Pittman; I am with the National Third World Student Coalition.

Senator NICKLES. The national what?

Mr. PITTMAN. Third World Student Coalition; it is an affiliate of the U.S. Student Association.

Senator NICKLES. And your name again?

Mr. PITTMAN. Curtis Pittman.

Senator NICKLES. OK.

Mr. GALLIONE. Robert Gallione; I am chairman of the legislative committee of the National Association of Student Employment Administrators.

Mr. OSTERMAN. Paul Osterman; I am professor of economics at Boston University.

Senator NICKLES. Paul, if you would start, I have not read your statement. I have read the balance of the statements. But if you would proceed and if all of us could move very quickly, I am supposed to be at a 12:30 meeting.

STATEMENT OF PAUL OSTERMAN, PROFESSOR OF ECONOMICS, BOSTON UNIVERSITY; ROBERT GALLIONE, CHAIRMAN, LEGISLATIVE COMMITTEE, NATIONAL ASSOCIATION OF STUDENT EMPLOYMENT ADMINISTRATORS; AND FRANK X. VIGGIANO, EXECUTIVE DIRECTOR, U.S. STUDENT ASSOCIATION. ACCOMPANIED BY CURTIS L. PITTMAN, DIRECTOR, NATIONAL THIRD WORLD STUDENT COALITION. A PANEL

Dr. OSTERMAN. Thank you, Senator. I will summarize my statement quite briefly. I want to make simply six or seven points.

First, I want to make the point that most youth unemployment that we observe today and that we have historically observed is not the consequence of the minimum wage. Most youth unemployment results rather from both the unstable behavior of youth themselves as well as the reluctance of firms to make considerable investments in training to hire such an unstable group.

As you have heard, the unemployment rates and the employment rates of white teenagers have not worsened over the postwar period. All of the change in the unemployment rate and employ-

ment situation of youth has occurred with respect to minority youth. No responsible labor economist, to my knowledge, has ever alleged that most of the decline in black teenage employment is due to the minimum wage. The true causes are discrimination, poor schooling, and competition from adult women and white youth.

For example, one of the authors earlier cited by Senator Hatch, an author who is basically hostile to the minimum wage and supports a differential, argued that had the 1966 amendments not passed, the black teenage unemployment rate would be 30 percent instead of 33 percent. While not trivial, that hardly goes to the heart of the employment problem facing black teenagers.

Second, I want to argue that any additional employment created by the subminimum wage for youth will not reduce the unemployment rate for teenagers. The reason additional employment will not reduce the unemployment rate is because more teenagers will flow into the labor market as more jobs become available. In particular, many teenagers will drop out of school. There is an unambiguous relationship between the number of jobs available for youth and school dropout rates. And a subminimum wage would, in my judgment, definitely increase high school dropout rates.

Third, I want to make the point that displacement is a significant issue. First, as you have heard, 70 percent of all minimum wage workers are adults. Of that group, 70 percent are adult women. No Federal agency could effectively monitor or prevent displacement, first because displacement will occur largely not via firing of adults who are already employed, but rather by reducing the rate at which they are hired; second, because much of the effect will occur in small businesses which are simply outside the reach of any Federal agency.

Displacement is significant. As you would hear were Mr. Grinker here, in a controlled experiment when firms were offered a 100-percent wage subsidy for youth only 18 percent of the firms accepted; that is to say, the number of new jobs which a subminimum would create is relatively small.

On the other hand, the employment effect—that is to say, the number of jobs going to youth themselves—is larger. The difference is the displacement effect, and that effect is substantial.

Fourth, I want to make the point that firms which are sensitive to the minimum wage and might hire additional youth as a result of it are not firms which offer training, long-range career opportunities, or substantial opportunities for growth. They tend to be, instead, low-wage, dead-end employers.

Now, I am not critical of low-wage, dead-end employers; I think low-wage, dead-end employers such as fast food operations have a role to play in the economy. But it is important to understand that these are not career jobs.

We have heard from several employers that they would like to hire youth at a subminimum wage and rapidly promote them up. Were they to do so, however, and really make those into career jobs, the small differential involved in the subminimum would hardly be a deciding edge.

Senator NICKLES. We need to scoot on.

Dr. OSTERMAN. Two more points.

Senator NICKLES. I will ask you a question and give you a chance to finish your point. Let me move on, though.

[The prepared statement of Dr. Osterman follows:]

March 24, 1981

Summary of Testimony by
Professor Paul Osterman

- (1). The minimum wage is not responsible for high youth unemployment rates. High youth unemployment is built into the labor market by the unstable behavior of youth, the reluctance of firms which provide steady employment to hire them, and the school to work transition. Despite increases in the minimum wage the unemployment rates of white youth, corrected for the business cycle, have remained stable in the postwar period. The crucial problem is the unemployment rates of minority youth. No responsible economist has suggested that these astronomical rates are caused by the minimum wage. The explanation lies in growing job competition from groups such as adult women, illegal aliens, and white youth; the poor quality of inner city schools; and racial discrimination.
- (2). While it is true that a reduction in the minimum wage for youth would create some new employment opportunities for youth that effect is small. A 25% reduction in the minimum wage would at most increase the number of job slots available to youth by 2.5%. Even this estimate is subject to considerable uncertainty.

* Professor Osterman teaches at Boston University, is the author of Getting Started: The Youth Labor Market, (Cambridge: MIT Press) 1980, and has consulted for the National Commission on Employment Policy, The Minimum Wage Study Commission, the Vice President's Task Force on Youth Employment, and the Department of Labor.

- 2 -

- (3). These new jobs would not appreciably reduce youth unemployment rates. This is because more youth would enter the labor market in response to the new jobs. Most seriously, school dropout rates would certainly rise since there is a widely accepted and unambiguous relationship between youth job availability and school leaving.
- (4). Most of the additional jobs for youth created by the dual minimum wage would not be net additions to the number of jobs in the economy. Rather, the lower price of youth labor would induce firms to layoff (or diminish hiring) adult workers and replace them with youth. The group most vulnerable would be adult women: roughly 70% of all minimum wage earners are adults (the remaining 30% are youth) and of the adults 70% are women. No monitoring scheme can prevent the substitution of youth for adults, both because much of the effect would come via reduced hiring--rather than outright firing--of adults and because much of it will occur in small businesses which no federal agency can effectively monitor.
- (5). The new jobs which youth will get would not provide valuable job experience or training. They are low wage dead-end employment with little training or advancement opportunities. Youth are better off staying in school or returning to it.

- 3 -

- (6). A lower minimum wage is a blunt policy instrument. Whatever new jobs are created are more likely to go to the best connected upper income youth than to those most in need.
- (7). Federal policy designed to alleviate youth employment is better directed to improving and expanding CETA youth programs, upgrading the quality of inner city schools, and encouraging private sector employers to hire minority youth. The policies would go to the source of the problem and would be efficiently targetted.

Senator NICKLES. Robert Gallione from the National Association of Student Employment Administrators.

Mr. GALLIONE. That is correct.

Senator NICKLES. Is that a nationwide group of administrators that employ students?

Mr. GALLIONE. Administrators that have responsibility for employment programs, whether it be placement, cooperative education, or work-study.

I think it might be appropriate to convey to you a short story before I begin my testimony. When I was a young boy, I wanted to buy a bicycle and I approached my dad and he said, "You ought to get a job." So, I did get a job; I got a job as a paperboy. My work from that job generated more than the minimum wage.

Well, now I am in a situation where my son has approached me and he wants a bicycle. Well, he started a job this summer as a paperboy and he worked out the amount of money he makes per hour the other day, and I did this with him. It comes to \$3.50 an hour. Well, last night I spoke with him and I said, "You know, I am going to Washington tomorrow and we are hearing testimony on the issue of minimum wage. Do you know that your average wage is above the minimum wage?" I said, "How would you feel, if all of a sudden, your wage was reduced from that to \$2.50 an hour or \$2.85 an hour?" He said he did not think that would be appropriate; he went beyond that.

I think this point is very important. I said, "What happens if older people are working side by side with youth workers and they are automatically paid 15 to 25 percent less than what the other person is making?" He said, "I do not think they would want to do the same amount of work."

The point of my telling this story is that I think this minimum wage developed a negative work attitude at a time when maybe we should be addressing the youth unemployment problem by developing a positive work attitude and positive work experiences.

Well, I have submitted testimony; I guess, for the benefit of the committee, it will be included in the minutes. Really, I just want to touch on a few points.

Of major concern to our association is the potential impact that this legislation would have in reducing the earning potential of students who do have a responsibility of bringing a certain amount of self-help into their financial aid situation at the college.

I did use the example of a possibility of a typical student who is paid \$2.51 an hour under S. 348 having a reduction of \$350 in his summer earnings if he were to be paid at the minimum rate under that bill. I think this, combined with the fact that tuitions are going to be increasing anywhere from 8 to 10 percent next year—this, combined with the fact that financial aid programs are going to be somewhat reduced, is just too much for some students to absorb. And I think we might find that a good number of these students might not be exercising the option of going to school.

It is the feeling of our organization that any student that wants to attend school and wants to help himself should be given that opportunity.

What I would like to conclude with saying is that the issue of displacement is of concern to me personally. I think that if one job

for a minority group member, a woman, or an older person is lost as a result of this legislation, it is one job too many.

Finally, I would like to say that one of the bills here provides for the student being required to go to his school and having a certificate filled out that he is a full-time student and that he is an eligible youth worker. Then he takes this to the employer and then the employer signs off on it.

I think what you are doing is creating another layer of bureaucracy that the student who is beginning work for the first time will have to experience. It just is not a good situation.

[The prepared statement of Mr. Gallione follows:]

NATIONAL ASSOCIATION OF STUDENT EMPLOYMENT ADMINISTRATORS
TESTIMONY SUBMITTED TO THE
SENATE COMMITTEE ON LABOR AND HUMAN RESOURCES
SUBCOMMITTEE ON LABOR

THANK YOU FOR GIVING US THE OPPORTUNITY TO TESTIFY THIS MORNING.

THE NATIONAL ASSOCIATION OF STUDENT EMPLOYMENT ADMINISTRATORS BELIEVES THAT FULL-TIME STUDENTS SHOULD NOT BE SUBJECT TO A SUB-MINIMUM WAGE FOR ANY PERIOD OF TIME. WITH THE PROPOSED CUTS IN THE VARIOUS COLLEGE FINANCIAL AID PROGRAMS, IT APPEARS PARTICULARLY INAPPROPRIATE TO ENACT LEGISLATION WHICH WILL REDUCE THE EARNING POTENTIAL OF STUDENTS BY 25 PERCENT.

MUCH HAS BEEN SAID ABOUT TUITION INCREASES AT COLLEGES AND UNIVERSITIES. AN ARTICLE IN THE NEW YORK TIMES OF FEBRUARY 19TH IS JUST ONE EXAMPLE. TUITION INCREASES OF \$800 TO \$1200 ARE EXPECTED THROUGHOUT THE NATION, AND SELF-HELP THRESHOLDS OF STUDENTS WILL BE INCREASED. THIS SELF-HELP CONSISTS OF OUTSIDE EMPLOYMENT, WORK-STUDY, LOANS AND CONTRIBUTIONS FROM SAVINGS. AT SOME PRIVATE INSTITUTIONS, STUDENTS CAN HAVE A SELF-HELP REQUIREMENT IN EXCESS OF \$3,500. HOW CAN WE EXPECT STUDENTS TO NOW CONTRIBUTE MORE TOWARD EDUCATIONAL COSTS WHEN THEIR HOURLY SALARY WILL BE REDUCED?

AT PRESENT, THERE ARE NO PLANS TO INCREASE THE MINIMUM WAGE, AND THIS REDUCES EARNING POTENTIAL WHEN ONE CONSIDERS INFLATION RATES AND INCREASES IN COLLEGE TUITIONS. THE MINIMUM WAGE WHICH WENT INTO EFFECT AT \$.25 PER HOUR IN 1938 WAS RAISED FOR THE 15TH TIME ON JANUARY 1, 1981, TO \$3.35 PER HOUR. BUT,

- 2 -

AFTER ADJUSTMENTS FOR INFLATION, IT HAS ONLY DOUBLED IN VALUE, AND TODAY'S MINIMUM WAGE IS WORTH NO MORE THAN THE 1963 MINIMUM OF \$1.25 PER HOUR.

THE PROPOSED SUB-MINIMUM WAGE OF \$2.51 WOULD MEAN A REDUCTION OF \$353 IN SUMMER EARNINGS FOR A TYPICAL COLLEGE STUDENT. STUDENTS CURRENTLY ARE BESET WITH FINANCIAL OBSTACLES AND THE ALREADY DECREASED VALUE OF A STATIONARY MINIMUM WAGE IN THE FACE OF INFLATION. IS IT WISE TO FURTHER EXACERBATE THIS SITUATION BY REQUIRING MORE HOURS OF WORK FOR LESS PAY?

OUR CENTRAL MISSION IN THIS TESTIMONY IS TO REQUEST THAT THIS COMMITTEE SERIOUSLY CONSIDER WHETHER ADDITIONAL EMPLOYMENT OPPORTUNITIES WILL BE CREATED BY LOWERING THE MINIMUM WAGE FOR TEENAGERS AND FULL-TIME STUDENTS. DOES THIS COMMITTEE HAVE STRONG EVIDENCE AND DATA THAT THIS LEGISLATION WILL ACCOMPLISH THE INTENDED RESULTS?

THE NATIONAL ASSOCIATION OF STUDENT EMPLOYMENT ADMINISTRATORS HAS RECENTLY CONDUCTED A TELEPHONE SURVEY IN FIVE MAJOR METROPOLITAN AREAS OF THE COUNTRY. CONTACTS WERE MADE WITH RETAIL DEPARTMENT STORES, HOTELS, BANKS, LIBRARIES, AND FAST-FOOD RESTAURANTS. THE RESULTS INDICATED THAT A SUB-MINIMUM WAGE WOULD CREATE FEW ADDITIONAL JOBS. THERE IS SOME LIKELIHOOD, HOWEVER, THAT THIS LEGISLATION MIGHT ACTUALLY INCREASE PROFITS FOR BUSINESS AND CAUSE A LOSS OF INCOME FOR STUDENTS.

IT IS OUR FEELING A YOUTH WAGE DIFFERENTIAL IS DISCRIMINATORY AND IS A BAD PRECEDENT TO SET FOR OTHER SEGMENTS OF THE LABOR FORCE. THERE IS THE POTENTIAL THIS LEGISLATION MAY CAUSE THE DISPLACEMENT OF OTHER YOUTH EMPLOYEES, MINORITY GROUPS AND WOMEN. WAGE RATES SHOULD BE BASED ON THE JOB RESPONSIBILITIES

- 3 -

AND NOT ON THE CHARACTERISTICS OF THE PEOPLE WHO FILL THEM. AS YOUNG PEOPLE ENTER THE WORK FORCE, THEY SHOULD NOT BE GIVEN THE FEELING OF "SECOND CLASS" WORKER STATUS.

WE RECOGNIZE EVERYONE HAS BEEN ASKED TO ASSIST THE CURRENT ADMINISTRATION IN DEALING WITH THE PROBLEMS OF INFLATION. AS WE WORK TOWARD THIS GOAL, PLEASE BEAR IN MIND THAT TEENAGERS AND STUDENTS ARE THE VICTIMS, AND NOT THE CAUSE, OF INFLATION.

THIS ISSUE IS ONE OF GREAT IMPORTANCE TO OUR ASSOCIATION. THANK YOU FOR YOUR TIME, MR. CHAIRMAN, AND FOR GIVING US THIS OPPORTUNITY TO EXPRESS OUR VIEWS.

Senator NICKLES. Thank you very much. Frank?

Mr. VIGGIANO. Thank you, Mr. Chairman.

We would like to thank you for this opportunity to allow our organization to address the subcommittee. USSA is a result of a merger of the U.S. National Student Association and the National Student Lobby, and in the past both of our parent organizations have strongly opposed any type of subminimum wage legislation for students or youth.

Recently, USSA was instrumental in persuading Congress to include section 443(b)(1)(D) in the Higher Education Reauthorization Act of 1980, which prohibited the payment of subminimum wages to students on the college work-study program. We believe that this small investment in the students of our country has allowed many thousands of people to continue their schooling while avoiding borrowing from Federal loan programs. Paying students a decent wage is a strong incentive for them to pay a larger percentage of their educational expenses while they are still students.

We believe that to single out full-time students in particular, who, in the past, were subject to subminimum wages, would be a mistake. Representative James O'Hara from Michigan, in a statement to the Subcommittee on Labor Standards on Thursday, April 1, 1976, stated,

In my judgment and based on all the evidence available, subminimum wage levels are not the best way to approach the problem of youth employment. Moreover, I am convinced that such a subminimum wage policy is clearly contrary to the spirit, if not the letter, of other laws concerning equal pay for equal or comparable work.

Senate bill 348 is of particular concern to USSA. With college tuitions rising an average of 11 to 14 percent and the effort to limit student aid programs and loan programs, students will be faced with the possibility of either not returning to school or reducing their status to part-time students.

The bill's requirement that full-time students "present to the employer a letter from the institution in which the college student is enrolled" seems to be a bureaucratic nightmare for colleges, could encourage students to hide their full-time status, or even reduce their status to part-time to avoid being paid a lesser wage.

Although this bill will not affect the college work-study program directly, we believe it will be a step in the opposite direction that Congress made in passing at least a minimum wage for students on this program.

Both bills would also allow the payment of a subminimum wage for a period of 180 days which, in our opinion, would discriminate against many young people who, because of academic schedules, work only seasonally or sporadically during the year.

Another problem is that many full-time students are not in the 18- to 22-year age bracket as in the past. The median age for college students now is inching its way through the mid-20's. The fastest growing sector of students is now women over 35, many of whom have dependents and can ill afford to have a large cut in pay. Many of these people are heads of households and would be forced to drastically reduce their course loads.

In previous years, the use of a full-time student subminimum wage has met with little success. Much of the increased employ-

ment following enactment of a full-time student subminimum wage was the result of the expansion of the college work-study program on campus, not as much the result of the effects of the student subminimum wage policy.

Senator NICKLES. Could I interrupt and ask both of the last persons, Frank and Robert, a question. Both of you have been addressing primarily S. 348, which talks about the 25- or 15-percent reduction. What is your thinking on the exemption for 16- and 17-year-olds?

Mr. VIGGIANO. Mr. Chairman, Mr. Pittman will be addressing that in his part of the statement, but I think generally—

Senator NICKLES. Well, your 5 minutes are up and we need to go. Do you favor the exemption or are you opposed to that, also?

Mr. VIGGIANO. We are opposed to that, also.

Senator NICKLES. You are opposed to that, also. Are you opposed to it as much as you are opposed to the other bill?

Mr. VIGGIANO. Equally.

Senator NICKLES. Equally opposed.

Mr. GALLIONE. Yes, I have to agree. I think that would be counterproductive too. What we have here is that students are really the victims of inflation, not the cause of it.

Senator NICKLES. Let me ask you another question. Do you think that 16- and 17-year-olds can provide services equal to those of the 19- and 20-year-olds?

Mr. GALLIONE. Again, from personal experience, at 16 years old I was a busboy at a country club, and I carried all those trays out to all those waitresses. My work was paid at \$1.60 an hour. Believe me, I earned that \$1.60 an hour, plus some.

Senator NICKLES. I worked for \$1.60 an hour too, so that rings a bell. I can also remember when I was going through school, and consequently, I am very, very concerned about school and students and their ability to make ends meet. Your son is to be commended for making the minimum wage delivering papers; he is throwing quite a few papers.

But I also am concerned about a lot of people being priced out of the market. We talk about people that are in the market, and then we talk about people that do not even have the door open to them.

Mr. GALLIONE. Sir, could I comment on that? I do not think anybody should be hired for a job if they are not earning the wage, and that is the problem that is occurring here. You are creating a second-class worker status; "because you are 16 years old, we should be paying you less than \$3.35 an hour." I think that is the wrong way to approach this, and I think that if a student is working side by side with another person who is making the minimum wage and might be head of a household, they should be expected to contribute the same way in that job. Salary should be based on responsibilities, not on the characteristics of the people who fill them.

Senator NICKLES. It should be based on economic value and productivity.

I will give you one other chance, as I told you I would, but be very quick.

Dr. OSTERMAN. Thank you, Senator. I just want to make two brief points. First, the minimum wage is a blunt instrument with

which to help youth because to the extent that new jobs are created, they are most likely to go to the best connected, best educated, largely upper income youth.

Second, the CETA training programs which I have observed—and I have engaged in careful evaluations of youth programs—have, among other things, provided home care for the elderly, housing rehabilitation, day care, teachers' aides, rehabilitation of parks, and a variety of other useful community services. I do think that those programs represent the best direction for youth policies.

Senator NICKLES. OK, I appreciate it.

Mr. Pittman, do you have just a brief comment? If you have a statement, we will allow that to be entered into the record.

Mr. PITTMAN. All right. I do not want to take up much of your time. I will not read the statement, but for the record we would like to let you know that our coalition, the Third World Student Coalition, is also against all three subminimum wage bills.

Senator NICKLES. They are opposed to all three?

Mr. PITTMAN. Opposed, yes. Also, I am a student; I go to Southern University in Baton Rouge, La. As far as the majority of the students are concerned, with the tuition increases and the possibility of this \$750 self-help thing coming up in the summertime, we do not feel that we will be making the \$750 during the summer in order to get our federal EOG grant awards in the fall. That is one reason why we are against the subminimum wage.

Also, from a black perspective, when we go to work, we will be fighting or arguing against our fathers, who happen to be the household heads in our families. To pit us against our fathers—I think that is going to cause some kind of trouble here in the family.

Senator NICKLES. Well, gentlemen, we appreciate your interest and your testimony and your input in this regard. This is the only statement I did not read last night, but we do appreciate it.

[The joint prepared statement of Mr. Viggiano and Mr. Pittman follows:]



United States Student Association

The Merger of the U.S. National Student Association and the National Student Lobby

STATEMENT OF
FRANCIS X. VIGGIANO
EXECUTIVE DIRECTOR
OF THE
UNITED STATES STUDENT ASSOCIATION
AND
CURTIS L. PITTMAN
DIRECTOR
OF THE
NATIONAL THIRD WORLD STUDENT COALITION
ON
AMENDMENTS TO THE
FAIR LABOR STANDARDS ACT OF 1938
TO AUTHORIZE A YOUTH WAGE
DIFFERENTIAL AND FOR OTHER PURPOSES
BEFORE THE
SENATE SUBCOMMITTEE ON
LABOR

MARCH 24, 1981

ROOM 4232
DIRKSEN

Mr. Chairman, members of the Sub-Committee, I would like to thank you for this opportunity to address the Sub-Committee on this important subject. My name is Frank Viggiano and I am Executive Director of the United States Student Association, which represents approximately 3.5 million students through their duly elected student governments and state student associations. Accompanying me is Curtis Pittman, Director of the National Third World Student Coalition, a National affiliate of the U.S. Student Association.

U.S.S.A is the result of the merger of the U. S. National Student Association and the National Student Lobby in 1978. Previously both of our parent organizations have strongly opposed any type of "sub-minimum" wage for either students or youth. Recently USSA was instrumental in persuading Congress to include Sec. 443(b) (1)(D) in the Higher Education Reauthorization Act of 1980 which prohibited the payment of sub-minimum wages to students on the College Work Study Program. We believe that this small investment in the students of this country will allow many thousands of people to continue their schooling while avoiding borrowing from federal loan programs. Paying students a decent wage is a strong incentive for them to pay a larger percentage of their educational expenses while they are still students.

We believe that to single out full time students, who in the past were subject to sub-minimum wages, would be a mistake. Representative James G. O'Hara (D,MI), in a statement to the Sub-Committee on Labor standards, house Education and Labor Committee, on Thursday, April 1, 1976 stated:

"...in my judgement and based on all of the evidence available, sub-minimum wage levels are not the best way to approach the problem of youth unemployment... Moreover, I am convinced that such sub-minimum wage policies are clearly contrary to the spirit - - if not letter -- of other laws concerning equal pay for equal or comparable work."

Senate Bill 348 is of particular concern to USSA. With college tuition rising by an average of 11 to 14% this year, and the effort to limit student aid and loan programs, students will be faced with the possibility of either not returning to school or reducing their status to that of a part-time student. The bill's requirement that full time students..."present to the employer a letter from the institution at which the student is enrolled..." seems to be a bureaucratic nightmare for colleges, could encourage students to hide their full-time status or even reduce their status to part-time to avoid being paid a lesser wage. Although this bill will not affect the College Work Study Program directly, we believe it would be a step in the opposite direction that Congress made in passing at least a minimum wage for students on this program. Both bills would also allow the payment of this sub-minimum wage for a period of 180 days which in our opinion, would discriminate against many young people who, because of academic schedules, work only seasonally or sporadically during the year.

Another problem is that many full-time students are not in the 18 - 22 year old age bracket as in the past. The median age of college students now is inching its way through the mid-twenties. The fastest growing sector of students is now women over 35, many of whom have dependents, and who can ill afford to have a large cut in pay. Many of these people are heads of households and would be forced to drastically reduce their course loads.

In previous years, the use of a full-time student sub-minimum wage has met with little success. Much of the increased employment following the enactment of a full time student sub-minimum wage was the result of the expansion of the College Work Study Program on campus, and not as much the result of the effects of the student sub-minimum wage policy.

As a student in Pennsylvania, I attended an independent college. Being the eldest of eleven children, my parents could not afford to contribute much to my education. I was fortunate to get a job that paid significantly above the minimum wage and was able to pay all my educational and living expenses. I did not need to apply for any grants or loans and felt I made a contribution to society through the taxes I paid.

I would now like to turn the rest of our time over to Curtis Pittman.

Mr. Chairman, Members of the Sub-Committee, my name is Curtis Pittman, and I am Director of the National Third World Student Coalition, an affiliate of the U. S. Student Association. I represent minority students who attend institutions of higher education.

Today, the United States is the only industrial nation that does not apply its minimum wage legislation to all low wage employees. While it is true that Congress has expanded coverage to include more workers, there are still many who are paid below minimum wage. For example, students at independent colleges can be paid a sub-minimum wage if their college obtains an exemption from the Department of Labor.

I am particularly concerned with the potential effect Senate Bill 658 would have on youth. The free market approach of this bill would subject young people under 18 years of age to drastic fluctuations in wages and would limit young peoples' right to a decent wage for their work. These proposals, S.348 and S.430, also raise important concerns about the direct competition between young and older workers. Many older workers who are already being paid poverty level wages, risk being displaced by younger workers. Many of these displaced workers will be Black, Hispanic, and members of other minority groups who in many cases will be heads of households. The displacement of these individuals could force many older workers on to public assistance rolls.

Another basic problem, in my opinion, is that these proposals are purely discrimination based on age. If young people are paid 75 or 85% of the minimum wage, they will more than likely do 75 or 85% of a job. The morale factor is very important for young people. If they know they are getting paid less for the same work, they will more than likely take less pride in themselves and in their work. A more positive solution might be to offer tax incentives to small businesses who employ young people and/or students. This would result in more payroll taxes paid to the government, more real wages for the youth and/or students, and a reward to employers who hire these young people.

The concept of a youth and/or student sub-minimum wage at first glance, may seem to be a good strategy to increase the employment of young people. However, it is necessary to consider what it would mean in the long run. Would it mean that any group with a history of high unemployment rates be given a separate minimum wage to encourage employers to hire them? What about the causes of their high unemployment rates, such as discrimination? Should these figures be dealt with by accommodating those who wish to discriminate and allow further discrimination in pay levels? Could it be argued by lowering all wages, so employment or employment levels would not increase but simply be

maintained? For example, now that Chrysler workers have taken a pay cut, should Ford and G.M. workers also take a pay cut?

In many central cities unemployment rates for minority youth are between 40 and 50%. If a sub-minimum wage is enacted, many prospective young workers might simply stop looking for work. The rising costs of transportation, for example, could make it too costly to work. The young workers will give up looking for work and will no longer be counted in the unemployment statistics. This will cause an artificial drop in the unemployment rate for these young people. Youth and minorities are already the "last hire and first fired", but to pit these two needy groups against each other for meager resources would be a disservice to society. A person currently being paid minimum wage makes about \$6,600. If they are the head of a household family of four, they would need to make over \$7,400 to be above the poverty level.

The Fair Labor Standards Act was originally proposed in order to eliminate wage discrimination so that working people could earn a decent living while avoiding group discrimination. Imposition of a sub-minimum wage on youth, especially those young people for whom employment is an economic reality in order to continue education, or merely survive, would deny a right that has already been affirmed. A youth differential would defeat the purpose of the Fair Labor Standards Act, and would encourage and perpetuate the conditions which the act was intended to alleviate.

Senator NICKLES. For the public's information, tomorrow we will have a second day of testimony from a variety of people of diverse backgrounds and diverse opinions on this controversial issue.

Thank you very much.

[Whereupon, at 1 p.m., the subcommittee was adjourned, to reconvene at 9:30 a.m., Wednesday, March 25, 1981.]

YOUTH OPPORTUNITY WAGE ACT OF 1981

WEDNESDAY, MARCH 25, 1981

U.S. SENATE,
SUBCOMMITTEE ON LABOR,
COMMITTEE ON LABOR AND HUMAN RESOURCES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:37 a.m., in room 4232, Dirksen Senate Office Building, Senator Don Nickles (chairman of the subcommittee) presiding.

Present: Senators Nickles, Hatch, Williams, Quayle, Kennedy, and Riegle.

Staff present: Richard C. Lawson and Charles T. Carroll, majority counsels; and Charlene M. Abshire, executive assistant.

Senator NICKLES. Good morning. Today, we will begin our second day of testimony on various proposals which would alter the minimum wage primarily for the benefit of young employed workers. Yesterday, we received testimony from a variety of people from both sides of the argument who discussed the pros and cons of the youth differential, and also of exempting young people from the minimum wage. Those persons in favor spoke particularly of the increased job opportunities which would open up for young people who are presently priced out of the job market because of the minimum wage.

Those in opposition said that the high cost of living and the need for a base to provide a minimum standard of living were important points to consider. They also mentioned strong concern that existing persons in the job markets would find that their jobs would be displaced by the younger workers. Some even suggested raising the minimum wage. I believe that if we do consider raising the minimum wage, equal consideration and argument can and should be made for totally eliminating the minimum wage altogether.

Some have indicated a desire to give various proposals further study and analysis. I personally believe that this subject has received an abundance of bureaucratic analysis, all of which has contributed very little to solving the unemployment problem we have with today's youth.

I believe that time is important not so much for this committee, not so much for the administration, not so much for the various companies that might be involved, but it is important for the young people. It is important for the young people who cannot find a job, for the 1.6 million youngsters who are finding the doors of opportunity suddenly closed, and closed because of an arbitrary minimum wage figure placed on them by the Federal Government.

We had a lot of testimony yesterday from various people concerning their philosophy of the economy. Yesterday, I read an

(219)

article, and I will summarize two paragraphs from Henry Hazlitt. When he was discussing the minimum wage, he said, for example, that when laws are passed, no one will be paid less than \$134, which is the present minimum wage for a 40-hour week. The first thing that happens is that no one worth less than \$134 a week to the employer will be employed:

You cannot make a man worth a given amount by making it illegal for anyone to offer him anything less. You merely deprive him of the right to earn the amount which his abilities and situation would permit him to earn, while you deprive the community of even the moderate services that he is capable of rendering. In brief, for a low wage, you substitute unemployment.

DR. HENRY HAZLITT.

Comments have been made about a recent lack of business support for this proposal by the chamber of commerce and others. We have a letter from the Chamber of Commerce that states their proposal for this issue, and I will put it into the record.

Senator Kennedy raised a question concerning a report entitled, "The Real Subminimum Wage Program" by the National Center for Jobs and Justice. The report claims that 2.5 million workers are being underpaid principally in the fast-food industry. Several responses have been received by this committee refuting this report, three of which will be entered into the record at this point.

[The information referred to follows:]

CHAMBER OF COMMERCE
OF THE
UNITED STATES OF AMERICA

HILTON DAVIS
VICE PRESIDENT
LEGISLATIVE AND POLITICAL AFFAIRS

March 23, 1981

1615 H STREET, N.W.
WASHINGTON, D.C. 20062
202/659-6140

The Honorable Don Nickles, Chairman
Labor Subcommittee
Labor & Human Resources Committee
United States Senate
Washington, D.C. 20515

Dear Mr. Chairman:

This is to give briefly the U.S. Chamber's views concerning negative impacts of the minimum wage on employment and the youth differential issue.

The U.S. Chamber of Commerce is the world's largest business federation, comprised of more than 112,000 members. Our members are vitally concerned about both the level and applicability of the minimum wage rate, and in particular the impact of substantial rate increases on inflation and unemployment.

We are in the process of preparing a comprehensive analysis on all aspects of the minimum wage law, an analysis which we believe will establish clearly its disemployment/unemployment effects, as well as its inflationary impacts. We hope to have the opportunity to testify as to our conclusions before the Labor Subcommittee later this year, after release of the Carter Administration's Minimum Wage Study Commission Report. That Report, unfortunately, is almost certain to reflect the pro-union (therefore pro-minimum wage) domination of the Commission's membership.

The minimum wage has increased more than 46% since 1977. We remain firmly convinced that each jump in the rate over this period has contributed substantially to unemployment. By costing jobs, many of which would have provided first-time work opportunities to ready and willing applicants, the minimum wage has denied many persons -- particularly young people -- the opportunity to start a productive worklife. For this reason, we respectfully urge the Subcommittee to reject any attempts to increase the minimum wage rate.

At the same time, the Chamber supports amendments to the minimum wage law that would address directly the youth unemployment problem. The current teenage unemployment level in this country is a disgrace. Last month, nearly one out of every five young people looking for work could not find a job; among minority teenagers, the unemployed rate was 35.4%. We, therefore, support the approach presented by Senator Hatch's youth differential proposal (S.348), Senator Percy's bill (S.430), and your own (S.658). Each of these bills offers positive solutions to reduce the youth unemployment crisis, and we support passage of this type of legislation.

In addition, we support expansion of the existing "student certification" program as another effective means of putting productive young people to work. The program is currently restricted to the retail industry and limited to six students per establishment. The Department of Labor's burdensome reporting requirements also discourage use of this Congressionally endorsed initiative. Elimination of these restrictions would open up job opportunities, especially among small businesses not necessarily engaged in retailing.

In conclusion, the U.S. Chamber looks forward to testifying later this year on all facets of the minimum wage and its debilitating effects on a productive economy. We respectfully request that this letter be made a part of the record of the current hearings.

Cordially,



Hilton Davis

cc: Members of the Labor Subcommittee



RONALD L. PLATT
VICE PRESIDENT
PUBLIC AFFAIRS

March 20, 1981

The Honorable Don Nickles
United States Senate
123 Russell Senate Office Building
Washington, D. C. 20510

Dear Senator Nickles:

Organizations such as the United Labor Union, ACORN and the National Center for Jobs and Justice have presented a list of grievances to the Department of Labor in several cities, claiming violations of labor laws by Burger King Corporation and other fast food retailers. The activity has recently occurred in Detroit, Philadelphia, Boston, Phoenix, Columbus, Atlanta, New Orleans and other cities.

These groups are claiming violations in the following areas:

I. UNIFORM MAINTENANCE:

Allegations: The groups allege that the fast food industry has not complied with regulations which call for compensation of minimum wage employees for uniform maintenance. These groups are saying that employees may be entitled to back wages.

Legal Requirements: Minimum wage employees are entitled to receive compensation for cleaning and maintaining their uniforms. The compensation should equal one hour's pay per week. Historically, the Department of Labor has found it acceptable for restaurants to provide free meals in place of a cash payment.

Whether employees have the right to choose the form of uniform maintenance compensation is presently the subject of litigation.

BURGER KING CORPORATION 7360 NORTH KENDALL DRIVE MIAMI FLORIDA 33156/TELEPHONE (305) 596-7011

The Honorable Don Nickles
 March 20, 1981
 Page Two

Company Policy: Burger King provides some form of compensation for uniform maintenance for all employees throughout the system in compliance with the law. In the vast majority of company units, employees receive a free meal, rather than cash. The value of the meals far exceeds the \$3.35 per week requirement for uniform maintenance. The meal consists of a sandwich, fry product and a drink.

In franchise units, the forms of compensation vary. Some provide a laundry service, some pay cash, while others provide a free meal. In a recent national survey, over 80 percent of Burger King employees expressed satisfaction with our current policy. Many look on the meal as a "fringe benefit." The laundry service is unpopular because employees like to wear their own uniforms.

II. MINIMUM WAGE:

Allegations: These groups contend that fast food employees are being paid less than the minimum wage.

Legal Requirements: The Department of Labor requires that all minimum wage employees be paid \$3.35 per hour, effective January 1, 1981.

Company Policy: All Burger King crew members in all company-owned restaurants are paid the minimum wage or more. Over 33 percent of Burger King Corporation's hourly employees are paid more than the minimum wage. Employees in franchise units receive at least the minimum wage except for a limited number of full-time students who participate in the FLSA Student Certification Program.

In addition to paying the minimum wage, Burger King provides a first job experience for many people. It gives them a chance to develop discipline, skills and an opportunity to advance.

III. YOUTH DIFFERENTIAL:

Allegations: These groups allege that it is unfair for students to be paid less than the minimum wage for working in a fast food restaurant. They label it exploitation.

The Honorable Don Nickles
March 20, 1981
Page Three

Legal Requirements: Employees participating in the "Student Certification Program" are paid at 85 percent of the minimum wage -- \$2.85 per hour, as provided by law.

Company Policy: The "Student Certification Program" is not used by Burger King Corporation company restaurants. Some franchisees do hire students at a special rate through the school with parent's permission. There is a limit to the number of participants in any one restaurant.

Burger King Corporation is not currently supporting legislation to provide lower minimum wage rates for youth. Burger King is concerned about the subject of youth unemployment and welcomes the hearings planned by the Senate Labor and Human Resources Committee to explore this subject.

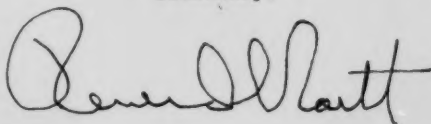
IV. OFF-THE-CLOCK WORK:

Allegations: These groups claim that fast food workers put in time at the job and are not paid for it. They claim this practice is wide-spread and is a violation of the law.

Legal Requirements: Workers must be paid for the hours they work.

Company Policy: Burger King monitors all restaurants carefully and advocates strict enforcement. Workers are paid wages for the hours they work. The company has a very firm stand on this issue. Managers in company restaurants have been terminated for violating this law. All employees must punch their own time cards.

Sincerely,



RLP/ajb

WILLIAM G. GIBBY
Executive Secretary

1919 PENNSYLVANIA AVE N.W. WASHINGTON D.C. 20006 (202) 659-9060 OFFICERS

March 23, 1981

Honorable Don Nickles
U.S. Senate
Washington, D.C. 20510

Dear Senator Nickles:

A report by the National Center for Jobs and Justice on Subminimum Wages, published on February 26, 1981 by the Bureau of National Affairs was in our opinion grossly misleading. I am enclosing our comment of the report for your information and use. The BNA report indicated that the Center's study was presented to Senator Edward M. Kennedy for use at the Hearings on Youth Subminimum Wage Issue scheduled to begin March 24th.

Sincerely,

Thomas W. Power

Thomas W. Power
General Counsel

TWP:lr
Enclosure

OFFICERS

JOHN W. BARNER
Construction Fund Management Inc.
President

JOHN W. BARNER
Barnes Construction
Vice President

JOHN W. BARNER
Barnes Construction
President

BOARD OF DIRECTORS

[illegible]

COMMENT ON REPORT BY
NATIONAL CENTER FOR JOBS AND JUSTICE
ON SUB-MINIMUM WAGES

1. Authors Michael Gallagher and Richard Kazis claim in a recent report that 2.6 million of 57.6 million working Americans "fully subject" to the FLSA are being illegally paid less than the full minimum wage. They represent their estimate as an "educated guess."^{1/} By comparison, the just-released non-compliance study of the Minimum Wage Study Commission estimates 677,271 (1.2%) workers were underpaid in violation of the minimum wage requirements out of 56.4 million "fully subject" employees.^{2/} The educated guesses of authors Gallagher and Kazis apparently miss the mark by nearly 400%.

The Minimum Wage Study Commission reports that its 677,271 estimate must be considered as an upward bound of minimum wage violations because the data upon which the estimate is based includes violations alleged by Labor Department investigators which employers dispute.^{3/}

2. The Gallagher-Kazis "educated guess" ignores the fact that wages as defined under the FLSA include tips, meals, and lodging for several million employees.^{4/} The Minimum Wage Study Commission report indicates 477,781 (nearly 80%) of all agreed upon and merely alleged violations in the retail service industry alone involved wages paid in part by credits for tips, meals, and lodging.^{5/} Obviously, if one ignores real wages of meals, lodging,

and especially tips, any so-called "educated guess" will be grossly exaggerated.

3. The Gallagher-Kazis "educated guess" is based on the assumption that all alleged violations, in fact, occurred, an incredible assumption to any fair-minded researcher.^{6/} There is serious doubt, for example, as to whether all tipped employees report all tipped earnings to their employers for income tax purposes as they are required to do. Similarly, legitimate questions occur during minimum wage compliance investigations as to how many meals an employee might eat and their cost; whether employees' lunch breaks were interrupted or not; whether certain employees performed non-tip work for which tip credits were improperly taken, and whether employees actually performed work before or after they clocked in or out for work. To characterize all such disputed claims as "epidemic" non-compliance from cheating employers is gross misrepresentation. To suggest that the failure of the Labor Department to collect all such disputed claims is because the Wage and Hour Division^{7/} is "hopelessly bogged down" is plain distortion.
4. The suggestions of widespread "outright abuse" of student differential wage provisions contained in the Gallagher-Kazis report are totally unsubstantiated.^{8/} To pay student rates, employers must apply for student certificates on an establishment basis. Employers use monthly figures establishing the maximum percentage of total employee hours which may be paid the student rate from data of comparable businesses which are available from the Department of Labor. This is entirely in accord with the

statutory provisions of the FLSA. Section 14 (b) (1) (B) (iii) (111)

The 30,948 student certificates issued in 1979 merely establish the maximum number of employee work hours on a unit basis which may be paid the student rate. The suggestion of Gallagher and Kazis that an estimated 512,000 student workers are actually employed at the student rate is totally unsubstantiated.^{9/}

Gallagher and Kazis totally ignore the fact that employment of fulltime students to the maximum extent permissible under an establishment certificate rarely, if ever, occurs. In the first place, students may only work up to 20 hours a week while school is in session and up to 40 hours a week during vacations. Because of conflicts with school schedules, fulltime students are frequently unavailable during the hours when needed by employers.

In February, the unemployment rate for 16-19 year-olds was 19.3%; for minority youth, it was 35.4%. To any reasonable person, these figures alone are convincing evidence that the relative economic worth (to say nothing of the relative economic needs) of 16-19 year-olds generally is less than that of adults. Obviously, society should expect that the training and work experience of teenagers generally is less than that of adults and this lack of initial training and experience results in their lower productivity. Minimum wages predicated in part on the minimum needs of an adult breadwinner for a family of four places millions of teenagers with more limited needs and abilities at a hopelessly competitive disadvantage in the job market. The Gallagher-Kazis Report ignores these realities. Their "educated guess" as to the number of youth paid student rates is little different than

would be an absurd assertion that because there are several million full-time students, all of them are paid subminimum wages.

FOOTNOTES:

- 1/ Report by National Center for Jobs and Justice on Subminimum Wages, Michael Gallagher and Richard Kazis. Bureau of National Affairs, DLR 2/26/81.
- 2/ See Noncompliance: Preliminary Integrated Report 3/81-Page 12 Employee Violations, Minimum Wage Study Commission, 1430 K Street N.W., Suite 500, Washington, D.C. 20005 (202)376-2440.
- 3/ Noncompliance Report, supra, page 5.
- 4/ Gallagher and Kazis rely their "educated guess" almost entirely on minimum wage noncompliance estimates using Current Population Survey (CPS) data base (Sollecorto and Welsh, 1981) CPS data generally ignore 3(m) wages.
- 5/ Noncompliance Report, supra, page 19, Table 7.
- 6/ Gallagher and Kazis, supra, especially The Extent of Minimum Wage Noncompliance.
- 7/ Gallagher and Kazis, supra, see especially The Enforcement Effort.
- 8/ Gallagher and Kazis, supra, The Student Subminimum.
- 9/ Gallagher and Kazis, supra, The Student Subminimum, para. 10.

NATIONAL
RESTAURANT
ASSOCIATION

March 23, 1981

The Honorable Don Nickles
United States Senate
Washington, D.C. 20510

Dear Senator Nickles:

This letter is in response to a request from Subcommittee staff for our comments on a study recently released by the National Center for Jobs and Justice. The study purports to show "epidemic" non-compliance on the part of business with minimum wage and overtime provisions of the Fair Labor Standards Act, and singles out the foodservice industry for particular criticism.

The study claims that two-and-one-half million minimum wage workers are cheated out of one-quarter of a billion dollars annually. Yet the only figures that one finds substantiated are 1979 Department of Labor figures which estimate non-compliance closer to one-third that number of workers and dollars. The inflated figures are based on the study's assertion that more compliance officers would uncover more violations, and only understaffing at DOL prevents this from happening.

We have two points here. First, we feel that DOL non-compliance figures actually overestimate non-compliance. This is so because many employers who have a legitimate difference of opinion with DOL cannot afford to litigate their differences with DOL in a court of law. Many foodservice operators have complained to us that DOL had cited them unfairly, but that it was economically impossible for them to challenge the Department in court. These employers "paid the fine" even though they felt DOL was wrong and that their position might be vindicated by the courts. DOL's non-compliance figures nevertheless include penalties paid and numbers of workers employed by these business people who have a good-faith dispute about their alleged non-compliance.

Secondly, DOL enforcement efforts are frequently misdirected. In our industry, we find that compliance officers devote excessive efforts to determining the appropriate pay for managers, executive chefs and small numbers of other well-compensated individuals, instead of concentrating on violations affecting minimum wage workers. If, as the Center study maintains, Wage and Hour compliance officers are overworked, it seems to us that their time might be better spent on basic compliance activities rather than on arguing the status of executive employees.

Washington Office
311 First Street, N.W.
Washington, D.C. 20001
(202) 638-6100

The Honorable Don Nickles
March 23, 1981
Page 2

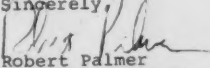
NATIONAL
RESTAURANT
ASSOCIATION

The study has much to say about several fast-food chains, and provides a primer on how to violate some major prohibitions under the FLSA, but fails to show any significant pattern of violations. The study's small examples do not, in our opinion, justify a finding that the non-compliance problem is three times larger than even DOL estimates.

Finally, the study assumes that employers are taking unfair advantage of the current full-time student differential, yet the study offers no proof of this, other than repeating the implied assertion that most minimum wage workers are illegally underpaid.

In short, we feel that the Center study does not present an accurate picture of the foodservice industry or FLSA compliance within the industry.

Sincerely,


Robert Palmer
Associate Counsel

RP/dm

Senator NICKLES. I think this is a very, very important issue. I think it is important for the young, unemployed worker to have an opportunity to be able to work for themselves, to be able to enter the job market and to learn what it is like to work for a living, and to be able to learn those skills necessary to become worthy and produce on a minimum wage.

Today, we will also receive testimony from a variety of people on both sides of the issue. We are honored today to have Senators Chuck Percy and Jim Abdnor, who will lead off our testimony. Later, we will have testimony from representatives of the National Federation of Independent Business, from the president of the AFL-CIO, from various economists, from various minority groups, and from various small business groups.

I think the testimony that we have today will be very, very helpful to this subcommittee, to the Labor Committee, and to the Senate for making our decisions and judgments in what Congress can do to alleviate this very, very serious problem.

Senator Hatch, did you have a comment?

Senator HATCH. Thank you, Mr. Chairman.

We are happy to welcome our colleagues to the committee this morning. What we are concerned with here are jobs for young people. I think the biggest cancer in America is the 36 percent unemployment rate of young minorities who really do not have a chance and who are locked in the ghettos, in what I call the new form of slavery, for the rest of their lives unless we come up with some way of giving them some opportunities.

We have had very few suggestions in this area. Most of us have fought and wrestled with this problem for a long time. There are two sides to this issue, but the fact is that it is time for us to quit wrestling with it and do something for the young people of this country. I believe that unless we try it, we will never know, really, what will happen. We will not know whether a youth differential will work or not work, except that many, many top people in this field feel that this is a way to resolve these conflicts and get these people employed.

As a matter of fact, we have spent a lot of time over the last number of years concerning intellectual abstractions concerning youth unemployment, and theoretical models or ideological beliefs. I think we ought to start making some decisions and do something for our young people for a change. The youth opportunity wage is one approach that may have a great deal of benefit for our young people.

So, I am particularly happy that our new chairman of the Labor subcommittee has taken this opportunity to hold these hearings. These are the first 2 days of hearings; there may be others. The Secretary of Labor I'm sure, will testify again. I think we can learn much today from these excellent witnesses who will be testifying on both sides of this issue.

Mr. Chairman, I want to congratulate you for taking this time today to conduct these hearings. Let me just also add that I think it is very shortsighted of anybody in the business community, especially those who have fought all these years for a youth differential, to now be afraid that if they bring up the youth differential, they are going to face an automatic debate on an increase in the

minimum wage. In fact, they seem terrified about that, and with just cause, because every time the minimum wage goes up, we lose thousands and thousands of youth jobs and opportunities. That has been true in the past and I think it is time to start looking at the future and doing something to alleviate that problem.

I also think that it is not the time to be timid on the part of business people. I suspect that we are going to fight that battle regardless of what happens on these particular legislative proposals. So, I think that what we ought to ask is: Is it right for our young people, is it right for our society, for the business community and for labor, to have a youth differential that gives these young kids a chance to get a job and have the self-esteem that comes from working?

I, for one, think it is about time we did something in this area rather than just provide more lipservice and continue to sit back and sigh about the difficulties that the young people have. So, I am very happy to have these hearings and will look forward to participating in them as much as I can and, of course, reading the testimony where I cannot participate. We will do the best we can in this committee to mark up some bill that will help our young people to get jobs.

Senator NICKLES. Thank you, Senator Hatch; we appreciate your leadership in this problem.

Senator PERCY, we welcome you this morning. We appreciate your efforts in this field to alleviate a very, very serious problem. We know of your time constraints and the fact that you have a committee that is ready to begin that you need to chair, so we welcome you and we welcome your remarks.

STATEMENT OF HON. CHARLES H. PERCY, A U.S. SENATOR FROM THE STATE OF ILLINOIS

Senator PERCY. Thank you very much, Chairman Nickles and Chairman Hatch. I am pleased to be here both as a legislator and as a past employer, with some 25 years in industry after starting out at a subminimum wage at a tender age and spending a quarter of a century with one company that was the employer of about 10,000—perhaps more now.

I have thought a great deal about this problem. I met with the board of directors of the AFL-CIO in Illinois 3 or 4 years ago about this issue. I have tried to work very closely with them, and I presented the problem then. What do we do about youth unemployment in East St. Louis and on the west and south sides of Chicago? It is reaching the astronomical proportions mentioned by Senator Hatch, where about half of the minority youth are roaming the streets, idle, unwanted, unneeded, unable to find a job. What do they do with their time?

Well, we know what they do with their time. We are not just dealing with labor problems today; we are dealing with a problem that is a pervasive cancer in American society—crime on the streets. We are dealing with young people who, because of their idleness, because of their feeling that they are not a part of society and our economic system—because they cannot get a job, they get into street crime. They mug people. They get on dope. That begins a whole process wherein they have a daily demand for \$100, \$150,

for drugs and they have to get it someplace other than by working, since they don't have jobs. Then they go more and more deeply into a life of crime.

So, what we are dealing with here is a very difficult problem. I presented it to our State AFL-CIO and said: If there is any approach preferable to a youth wage and other than massive spending come to me with it. If there is anything else to try, we will try it. We have tried training programs and we know what their cost is—thousands of dollars to train a person for a job that may not exist in the private sector.

This is the first time I have testified on a youth minimum though Chairman Hatch and I have discussed it many times and he knows how strongly I feel about it. I am at the stage where I think we must bite the bullet now and do something about it, try it, and I hope we can do it with the cooperation of business and labor. It is their problem just as much as it is our problem; in fact, it is even more their problem. We are 1° removed from it; it is their direct problem. What can we do to resolve this problem? We have to start now in a dramatic way.

I do not think that this is an overly dramatic way that we are proposing, but it is a departure from the past and it does require new law. I am enthusiastic about the opportunities we have today to be able to propose constructive alternative solutions to the many difficult problems facing our country today and have the reasonable assurance that they will be fully considered. After years of well-intentioned and well-funded Federal programs, many of these problems have simply not gone away at all. They have gotten larger, and the time has arrived to consider new alternatives.

If I can be partisan for just a moment, I have come away from the meetings with Senate committee chairmen on Tuesdays at noon with Howard Baker and with my other Republican colleagues, with a great deal of pride in the sense of responsibility, that I believe we are bringing to our new position as the majority. It is in that spirit that I come before you today to discuss what I hope will be creative solutions to the nagging problem of youth unemployment.

I agree with President Reagan's program to diminish the role of government in the economy and I feel that such an approach can be especially successful in the area of unemployment. I cannot help but recall when President Reagan met the mayors, for the first time as President, he told them he got his first job, as I did mine, when there was no minimum wage. He just went to the marketplace, got busy, and worked on a construction crew. I stated in the basement of Bell & Howell, myself. In those days we could go out and get a job that would match our skill with what the market was willing to pay. Now, we have restrictions.

I have supported the minimum wage, so long as it does not push wages up to an unacceptable and uneconomic point. We have worked together with organized labor to put this safety net underneath, and to try to keep someone who works for a living earning more than someone on welfare. This is one of the purposes of it.

When you have Mayor Koch in New York and Mayor Bradley in Los Angeles saying, "I want to experiment in my city with a youth differential on wages," are we going to say to these two mayors

faced with the day-by-day problem of lots of young people out of the mainstream of the economy, "No, you cannot do it because we down here in Washington are going to say that you are going to pay \$3.35 or else to every last young man and woman that wants to have a job?"

Are we going to dictate from Washington to two distinguished mayors who want to try an experiment in their cities? Are we going to say, "No, you cannot do it?"

Come to Chicago; we have the problem. I should think Mayor Byrne would welcome some chance to help young people. Certainly, with the safeguards built into the legislation that I have proposed and that Chairman Hatch has proposed, there is no big risk. The safeguards are there so that you cannot displace another person.

If would be a subsidy of only 50 cents, in lieu of thousands of dollars of CETA money, 50 cents an hour to train a person on the job, for a job that exists, without displacing an older person because of it. In many, many areas, additional young people will be hired, and will get some solid training as well.

Based on my own quarter of a century as a business executive, I believe that the most permanent and productive jobs in the economy are created by the private sector and not by government. Therefore, my six cosponsors and I felt that as a complement to existing Federal employment and training programs, whose funding will undoubtedly be reduced in a very substantial way over the next few years, we would propose, on an experimental basis, a special wage for young people.

Some research sources, as outlined in articles over the last year published by the Congressional Office of the Budget, the National Commission for Employment Policy, and the Department of Labor, suggest strongly that the minimum wage level does, in fact, have an adverse effect on youth employment.

Advocates of the opposing position, of course, cite their own sources, which say it has no such negative effect. I, for one, would like to find out who is really right in this ongoing argument that we are having. There is only one way to do it; try out a system, try out a procedure, and give an honest chance to those of us who believe that this may work.

Since there is so much conflicting information on the precise effects of a youth minimum wage on the employment of both young people and adults, my cosponsors and I believe that a 3-year experimental period, as contained in S. 430, would give us in Congress, the Department of Labor, and organizations in the private sector, a sufficient data base and some practical experience by which to judge the usefulness of a youth wage.

In my prepared testimony, I focused on the sunset aspects of S. 430. And, Mr. Chairman, I ask unanimous consent that the full text of my statement be incorporated in the record, and I would just like to spend the remaining moment or two on one aspect of it.

I believe that most of us read the article in the February 12 Washington Post by Herbert Denton, in which he wrote about the interest expressed by such prominent Democratic mayors as Koch of New York and Bradley of Los Angeles. Speaking on my own behalf, I would heartily endorse the idea of some kind of pilot project for a youth wage to be based perhaps in the ten or dozen

cities with the highest youth unemployment rates, if such a concept, instead of going immediately to permanent legislation, would dissipate some of the opposition.

In all my industrial experience, I never put a product on the market nationally until I tried it out in some test area. A pilot run of a product, a pilot run of an idea is the way to go. You can minimize the damage; you minimize the benefit, obviously. You lose some time, but you move ahead later with greater assurance.

I would be willing to modify my own proposal and work with the members of this committee to determine whether or not a 2-year sunset or an 18-month period of duration could bring us closer to a means by which we could discover once and for all that the idea works or the idea does not work. We will not know until we try. We can sit here and debate for years on end and we can take opposing sides, but who can really—and I ask Lane Kirkland as a friend—who can really say “you are tinkering too much,” or “you are going to damage relationships between older and younger people at work?”

If you try it out in a couple of areas where the mayors of those cities want to try it out—if Mayor Byrne does not want to try it out in Chicago, maybe we can go to East St. Louis to find a mayor who will support it. But let us get local, State, and Federal authorities working together to solve the problem. A pilot run may be the best way to do it.

A pilot project directed at solving our chronic youth unemployment problem strikes me as being considerably more worthy than many pilot projects of the past that were authorized with much less thought and debate than we have devoted to this one.

Our colleague in the House, Congressman Jack Kemp, is preparing to reintroduce revised legislation to build on the urban enterprise zone concept that he pioneered and shared with all of us last year. When that legislation reaches the Senate, perhaps we could consider authorizing a youth minimum wage for businesses in the designated enterprise zones.

Mr. Chairman, I put myself and my staff completely at your disposal, and the same offer is made to Chairman Hatch, to help draft the most practical proposal. I want to commend both of you for your outstanding leadership on this issue.

The staggering youth unemployment problem which we face is costing billions of dollars, and it has already cost billions of dollars in Federal funds to try to solve it, and we have not even made a dent on the problem. CETA youth programs cost anywhere from \$5,300 to \$13,383 per participant per year. A reduction of 50 cents in the minimum wage for young people for a period of 6 months on a 40-hour-a-week basis would cost \$520, and the number of jobs at the end of the line is very great indeed. That difference alone is enough to justify an experiment with a youth minimum wage.

Idle teenagers in every city of this country are turning to drugs and increasing street crime because they are so desperate. It seems senseless to me to allow this to continue simply because key Members of Congress, particularly in the House, and some interest groups are locked into inflexible positions.

We have before us several proposals made in good faith that reasonable people believe can work if given a try. We can learn

from the mistakes of the past by not rushing into permanent legislation right away. But let us do something; let us not have the opportunity slip away for doing something constructive for unemployed teenagers in this country who want to work but who cannot find jobs. Let us fashion a proposal that the responsible new majority can sell, be proud of, and make work.

Mr. Chairman, I would be happy to answer any questions, though I believe my distinguished colleague here could probably answer them, as my hearing is just about to start.

Senator NICKLES. Well, Senator Percy, I realize your time constraint. I very much appreciate your remarks. I think you came from a viewpoint that has not been represented to date and spoken very, very well, and we certainly appreciate your input. Thank you.

Senator HATCH. Senator Percy, I certainly appreciate your input and your leadership in this area. I know you had the opportunity as a young man to start off in the same way you are suggesting that we give others the opportunity today. You built a very successful business career and wound up the president of a major corporation at 29 years of age, I think. I just wonder how many of today's young kids could do the same if we just gave them the chance to get started up the ladder.

I appreciate your leadership in this area. We are happy to have you working with us on it, and we also respect your position for business and labor through the years here in the Congress and your good relationship with people on all sides of these issues.

Senator PERCY. I will, Mr. Chairman, again contact my friends in organized labor, and also the U.S. Chamber and NAM, of which I was a member for years, to see why they have gotten cold feet on this. Maybe organized labor ought to look at it; if business is against it or getting cold feet, maybe there is something in it that labor did not see.

Senator HATCH. Maybe that is true.

Senator PERCY. But I do not see how any of them can argue with an experiment, particularly when the local officials say, "Give me this authority to do this." Now, is Washington going to sit here and say, "No, we are not going to let you run your own affairs and solve your own problems; we are going to solve them for you?" We have not come up with a single solution to those problems and those statistics that stare us in the face.

Senator HATCH. Well, let me add one other thing with regard to the chamber. I have not had any personal discussion with them as a group, but I had a personal chat with one of their board members who was just livid over the recent accounts of the chamber's position. Most of the chamber people, including Dick Leshner, have been very supportive of this concept. I think it has only been a couple of rather loud-mouthed, lower-level employees who have gotten themselves into this bind.

With regard to the NAM, I would be shocked if they are not going to come behind this concept. What I am more worried about are some of the fast food industries that seem to have gotten very cold feet because they are facing some pressures that perhaps they have never had to face before. I said yesterday that it is easy for me to understand why some of them have put chicken between those two buns, and I think it is time for them to stand up, just

like it was easy for them to stand up when this did not have a chance.

Senator PERCY. Thank you. I am delighted that Senator Williams is here, my practically next-door neighbor. I will come by and lobby you on this issue and give you my whole speech again, at a time and place of your choosing, and your cup of coffee in your home.

Senator WILLIAMS. All right.

Senator PERCY. But I want to point out that the problem has been a problem very much on your mind for a long, long time. What I am proposing simply is an experiment that I think we can try to work out the details on, and I would hope we would have your enthusiastic backing because it is going to take bipartisan support for this, and your leadership as well.

Senator WILLIAMS. I regret that I did not hear your statement, Senator Percy. I certainly will read it and will look forward to our personal chat.

There is just one question that I might raise, if I might, Mr. Chairman. You suggest that we adjust a youth subminimum as an experiment, but we do have two approaches to a subminimum for youth that are now in effect, the student provision and a tax credit provision. Neither of them has been utilized as extensively as they might be by the business community—perhaps the student provision more than the tax credit provision.

So, if business is interested in this, why do they not avail themselves of what is already available to them, particularly the tax credit idea?

Senator PERCY. Well, I will not repeat what I said before. I will meet personally with you. I merely pointed out that when you have two great mayors, Mayor Koch and Mayor Bradley of Los Angeles and New York, that want to try this, why would we prevent them from doing it? Let us try it regionally in 10 or 12 cities; take one in New Jersey, any one of your choice, and I will take a couple in Illinois, and let us see if we cannot make this work. Give the employer and organized labor a chance to monitor it carefully, but try it out and see whether the idea is worth anything. It is about time we put it to a test. Thank you very much.

Senator NICKLES. Senator Percy, thank you.

[The prepared statement of Senator Percy follows:]

TESTIMONY OF
THE HONORABLE CHARLES H. PERCY

SENATE SUBCOMMITTEE ON LABOR

MARCH 25, 1981

Chairman Nickles, I very much appreciate the opportunity to be here this morning and to discuss with you and the members of the Labor Subcommittee some possible solutions to the pressing problem of youth unemployment.

I am enthusiastic about the opportunities we have today to be able to propose constructive alternative solutions to the many difficult problems facing our country today and have the reasonable assurance that they will be fully considered. After years of well intentioned and well funded federal programs, many of these problems have not gone away and the time has arrived to consider new alternatives.

If I may wax partisan for a moment, Mr. Chairman, I have come away from meetings with Senate Committee Chairmen and my other Republican colleagues with a great deal of pride in the sense of responsibility I believe we are bringing to our new position as the majority. And it is in that spirit that I come before you today to discuss what I hope will be

creative solutions to the nagging problem of youth unemployment.

Last November, the citizens of this country demanded sweeping action to cut government spending, lower inflation and stimulate the economy. The President has given us a hard-hitting plan to achieve those goals and to diminish the role of government in the economy. I wholeheartedly support him in this effort. Clearly then, our responsibility is to put aside the mind-set of dependence on government and to begin to devise solutions to our continuing economic and social problems that will harness the creativity and imagination of the private sector. I feel that such an approach can be especially successful in the area of unemployment. Based on my twenty-five years as a business executive, I believe that the most permanent and productive jobs in this economy are created by the private sector, not by the government. This same philosophy is embodied in each of the three bills the Subcommittee is considering today.

On February 5, on behalf of my co-sponsors, Senators THURMOND, ABDNOR, PRESSLER, SYMMS, HUMPHREY AND TOWER, I introduced S. 430, the Youth Employment Opportunity Act of 1981. Our legislation would establish a minimum wage for young persons 16-19 years of age at 85% of the adult minimum wage. This would provide for a youth wage rate of \$2.85 per hour under present circumstances. Based on the premise that a young person should be paid a lower wage during his or her "training" period, the youth minimum wage would apply to the first six months of employment of an individual in that age bracket by a single employer.

It is our feeling that, without creating a new federal program, without creating a new federal bureaucracy, without creating new and substantial federal outlays, we can, through such legislation, find a way of overcoming some of the reluctance businesses express about hiring inexperienced young people at the current minimum wage of \$3.35, which became effective on the first of this year.

In an issue paper published by the Congressional Budget Office in 1980 entitled, "Youth Employment and Education: Possible Federal Approaches," the following is stated:

"Estimates of the effects of minimum wages on youth employment vary, but many researchers believe that each 10 percent rise in the minimum wage relative to the average hourly wage reduces youth employment by something between one and four percent. If the one percent estimate is valid, then lowering the minimum wage for all persons in 1981 from \$3.35 to \$2.85 could increase employment among youth aged 16-19 by perhaps 60,000 jobs. Establishing a subminimum wage only for youth might bring about even greater increases for them, although these greater increases might be offset by rising joblessness among older workers."

To address the reservation expressed in the last line of the excerpt from the CBO report, our legislation provides penalties for the abuse of the youth wage, that is, if it is used for the purpose of displacing older workers or other young people. It further provides for a twice yearly report to Congress by the Secretary of Labor on the effect of the youth wage on the employment rates of both young people and adults.

Finally, Mr. Chairman -- and, we are coming to the unique feature of this bill on which I would like to focus

today -- we recognize the fact that Congress has seldom in the past come up with perfect answers to our national problems. We are suffering today economically because so many "solutions" enacted by Congress have turned out to be problems in themselves. We do not wish to have those mistakes repeated. Therefore, our bill has a "sunset" provision. After a period of three years, the youth minimum wage would have to be specifically renewed by Congress or else it would expire. Since there is so much conflicting information on the precise effects of a youth minimum wage on employment of both young people and adults, we believe a three-year experimental period would give the Congress, the Department of Labor, and those interested research organizations in the private sector, a sufficient data base and some practical experience by which to judge the usefulness of this tool in the fight against youth unemployment.

I have supported the youth employment and training programs under CETA in the past and I believe their continuation in some form is essential to the employability of young people with the most serious employment handicaps. But logic dictates that we encourage the use of the best employment and training source we have -- thousands of businesses across this nation -- to handle at least a part of the youth unemployment problem. To create the 60,000 jobs mentioned earlier, through CETA, would cost between \$500 million and \$800 million. By enactment of a youth wage, we can provide some incentive for the hiring of young people in marginal categories - who could be hired if only the minimum wage were not as high as it is. A youth wage would be a natural complement to CETA and a much needed

effort to address the very critical problem we are facing.

The distinguished Chairman of the full committee, Senator Hatch, has introduced legislation to authorize a 75% "youth opportunity wage," and Chairman Nickles of this subcommittee has a bill to exempt 16- and 17- year olds from the minimum wage law. I commend both Senators for their strong leadership in this area and believe we can work together to fashion a legislative package that has a reasonable chance of passage in this Congress.

We have a staggering youth unemployment problem. The February rate for ages 16-19 was 19.3%. The rate among black youth nationwide was 35.4%. The rate among inner city minority youth in some areas of my own state -- such as East St. Louis -- runs well over 50%. We have some indication that an increasing minimum wage level affects the employability of youth.

Mr. Chairman, neither you nor I would be sitting here in this room today if we did not believe that politics is the art of the possible and that honest and genuine compromise is the key to legislative success.

A little over three years ago, the proposal for an 85% wage for the first six months of employment, with adequate penalties and safeguards came very close to passing. It was defeated by five votes in the Senate and by only one vote in the House. In the intervening years, both the House and the Senate have changed philosophically, and the leadership

of the Senate has changed completely. We have a better chance than ever before to enact some kind of youth wage proposal. But there is, nonetheless, considerable opposition to contend with -- on this Committee, in the House Committee and among organized labor and some other groups.

In my testimony earlier, I emphasized the "sunset" provision of S. 430 and the experimental nature of my own bill. I would like to spend a few minutes on that aspect of the bill and how we might build on it to get a package through the Congress.

I believe most of us read the article in the February 12 Washington Post by Herbert Denton in which he wrote about the interest expressed by such prominent Democratic Mayors as Edward Koch of New York and Thomas Bradley of Los Angeles in a youth minimum wage pilot project in their cities. Speaking on my own behalf, I would heartily endorse the idea of some kind of pilot project for a youth wage -- to-be based perhaps in the ten or dozen cities with the highest youth unemployment rates -- if such a concept, instead of going immediately to permanent legislation, would dissipate some of the opposition. I would be willing to modify my own proposal to a two-year or 18-month period of duration if by doing so, I could bring us any closer to a means by which we could discover once and for all that the idea works or doesn't work. We won't know until we try. Heaven knows how many pilot projects we've authorized in the fourteen years I've been in the Senate. A project directed at solving our chronic youth unemployment problem strikes me as being considerably

more worthy than many pilot projects of the past that were authorized with much less thought and debate than we've devoted to this one.

Our colleague in the House, Congressman Jack Kemp, is preparing to reintroduce revised legislation to build on the "urban enterprise zone" concept he pioneered and shared with all of us last year. When that legislation reaches the Senate, perhaps we could consider authorizing a youth minimum wage for businesses in the designated "enterprise zones."

Mr. Chairman, I put myself and my staff completely at your disposal, and the same offer is made to Chairman Hatch, to help draft the most practicable proposal.

Federal spending programs have not solved the youth unemployment problem. Idle teenagers in every city in this country are turning to drugs and increasing street crime because they are so desperate. It seems senseless to me to allow this to continue simply because key members of Congress -- particularly in the House -- and interest groups are locked into inflexible positions. We have before us several proposals made in good faith that reasonable people believe can work, if given a try. We can learn from the mistakes of the past by not rushing into permanent legislation right away. But let's do something. Let us not see the opportunity slip away for doing something constructive for unemployed teenagers in this country who want to work but can't find jobs. Let us fashion a proposal that the responsible new majority can, "sell," be proud of and make work.

Senator NICKLES. Senator Abdnor, do you have some remarks?

**STATEMENT OF HON. JAMES ABDNOR, A U.S. SENATOR FROM
THE STATE OF SOUTH DAKOTA**

Senator ABDNOR. Thank you, Chairman Nickles. I have a very brief statement. I too have to go to a committee meeting, but I cosponsored this legislation with Senator Percy and so I appreciate this opportunity to come before you and Senator Williams and Senator Hatch.

I want to commend you for wrestling with this very serious problem that exists throughout the United States, not only in the big cities, as Senator Percy spoke of, but throughout the Nation in the rural areas and Midwest as well. So, I think it is good that you have made this a subject of serious discussion, and hopefully some solutions can be found. Certainly, it is worth trying to do something with.

I just wanted to thank Senator Percy for the opportunity to join him this morning in support of S. 430. He did a very capable job of detailing the goals and objectives of his bill, and I just want you to know that I certainly lend my support to his proposed legislation, and that is why I have cosponsored it.

This youth minimum wage bill will help alleviate one of our most distressing national problems—the tragic rate of teenage unemployment. Wherever we go, it seems it exists. It is a problem that cuts across all areas of the country and all levels of our society, and unites us in a continuing chain of despair as we see the energies of our youth squandered in crime, increased drug and alcohol abuse, and breeds a growing cynicism about our way of life.

I believe that this problem can be solved. Having been in Congress for 8 years before coming to the U.S. Senate, I have seen a multitude of make-work programs that have provided little in the way of permanent job opportunities, but consumed large amounts of tax money. We now have an opportunity to change this sad legacy.

I only have to look at my own State of South Dakota's unemployment figures to see what the national trend is. Our teenage unemployment rate is over twice as high as unemployment figures for the State as a whole. Our minority youth rates are an intolerable four times the average rate.

Now, I call on all my colleagues in Congress to join with us in fashioning legislation that will put the youth of our Nation to work so they can have an opportunity to enter the work force and build their job skills as they build their self-confidence. Surely, it is not too much to ask that we provide them with the opportunity to be contributing members of our society. We cannot afford to squander the resources of our most important national treasure—our youth. Believe me, I think there is no one who disagrees that the most important asset this country has today is our young people. For the most part, we can be extremely proud of them. All we have to do is give them an opportunity to find jobs, to work, and to contribute to the economy, and I think many of our problems will be solved.

Mr. Chairman, I certainly thank you for this opportunity to appear here.

Senator NICKLES. Senator Abdnor, I appreciate your support and your efforts and your interest in this area, not just this year, but for your past activities as a Congressman. We have had a lot of testimony citing the problem of big cities, but you are pointing out the fact that this exists as a nationwide problem. It certainly exists in your State as well as our State, and in all states. There are unemployed youth everywhere that we are trying to help open the door of opportunity for.

Senator ABDNOR. Absolutely.

Senator NICKLES. Thank you.

Senator ABDNOR. Thank you.

Senator WILLIAMS. Thank you very much.

Senator ABDNOR. Thank you, Senator.

Senator NICKLES. Senator Williams, do you have an opening statement?

Senator WILLIAMS. If I might, Mr. Chairman, just say that it seems to me that if one thing is clear from the hearings yesterday, it is that the subminimum wage is hardly the panacea to our youth unemployment problem that it is widely portrayed to be.

On the contrary, serious questions have been raised about the effects of the subminimum wage and, indeed, whether a subminimum wage would have any ameliorating effect on our youth unemployment problem.

The Secretary of Labor and others have raised serious questions about the subminimum wage, including the effect of the subminimum wage on displacing adult wage earners and heads of households, the ability of a subminimum wage to provide meaningful employment opportunities in our inner cities, the effect of subminimum wages on poverty level families who rely on the wages of teenagers for their very survival, and whether a subminimum wage would induce business and industry to create any additional jobs, and also the effect of a subminimum wage on the ability of teenagers to earn sufficient income to provide for their college educations.

Another point that has been emphasized is the very real possibility that a subminimum wage would have a negative impact on the commitment of young workers to the work ethic on which our market system so heavily depends.

In my view, a simplistic, blunderbuss approach of a subminimum wage to our youth unemployment problem clearly deserves more careful and thorough examination than we will be able to provide in these 2 short days of hearings. The blind commitment of the administration to the concept of this subminimum wage, coupled as it is with recommendations for devastating cutbacks in our employment training, public jobs, youth employment programs, and basic education grants, creates an unparalleled peril to the youth of our country.

These issues underscore the need for more thorough hearings about the effects of the subminimum wage, and indeed on the need to provide additional increases in the minimum wage to accommodate for increases in the cost of living.

The message seems to me to be very clear that the subminimum wage proposals, coupled with the proposals for cutbacks in so many

of our other youth employment and training programs, are jeopardizing the hopes of our youth for their future.

Senator NICKLES. Thank you, Senator Williams.

Our first guests today will be Michael Roush, who is legislative representative for the National Federation of Independent Business; John Burkhart, who is the owner of Burkhart's in Murfreesboro, Tenn.; and Fred Thorn, who is the owner of C. J. Personnel Consultants, Virginia Beach, Va.

Would you all please identify yourselves?

Mr. ROUSH. Mike Roush.

Senator NICKLES. Mike, thank you.

Mr. BURKHART. John Burkhart.

Senator NICKLES. John.

Mr. THORN. Fred Thorn.

Senator NICKLES. Thank you, Fred.

Mike, if you would begin; in view of the fact that we have many, many other witnesses today and we have other commitments, including an active day on the floor of the Senate today and tomorrow as we begin the budget resolutions, we would prefer you to keep your testimony brief. I believe we have received everyone's remarks and we have analyzed them.

If you would briefly summarize your thoughts, especially as to the different comments made by Senators or other people on the pluses and minuses of this legislation and how you see it affecting your industry, your business, and the young people you are involved with. I think this would be more instrumental to us, and it also would allow us to ask a few more questions of you; it should come to the heart of the problem.

We will ask all of our witnesses to confine their testimony to 5 minutes.

Go ahead, Mike.

STATEMENT OF MICHAEL O. ROUSH, LEGISLATIVE REPRESENTATIVE, NATIONAL FEDERATION OF INDEPENDENT BUSINESS; FRED THORN, OWNER, C. J. PERSONNEL CONSULTANTS, INC., VIRGINIA BEACH, VA.; AND JOHN BURKHART, OWNER, BURKHART'S, MURFREESBORO, TENN., A PANEL

Mr. ROUSH. Mr. Chairman and Senator Williams, my name is Mike Roush, from the National Federation of Independent Business. I am here this morning representing 539,000 small business owner-members. On behalf of all of them, I would like to thank you for this opportunity to testify on youth employment and possible changes to the Fair Labor Standards Act.

Mr. Chairman, if I might, I would like to submit, as you have requested, my full statement for the record. Also, if I could, I would like to submit an essay that was done for NFIB by Dr. Walter Williams on the subject of minimum wage for the record.

Also, I would like to submit, if I could, the results of six pollings that NFIB has conducted of our full membership on various aspects of the minimum wage. Finally, I would like to submit an extensive employment report that we had done for us on small businesses, which I think would help the committee in its deliberations on the subject, for the record.

Senator NICKLES. They will be entered into the record.

Mr. ROUSH. Thank you.

[The following material was received for the record:]

NFIB

NATIONAL FEDERATION OF INDEPENDENT BUSINESS
Public Policy Discussion Series

The Minimum Wage and Minority Employment Opportunities

The Real Impact of Government-Mandated Programs

By Walter E. Williams

One of the most pressing domestic policy issues that confronts American society is how do we help the less fortunate become independent, enterprising, and upwardly mobile. No one knows the complete answer to this question as evidenced by the failure of much legislation, billions of dollars, and much civil rights litigation, to produce a solution. On the other hand, it is clear that we do not help the less fortunate person by destroying his best alternatives, no matter how unattractive that alternative may seem to more affluent observers. While such a statement may appear trivial, the thought is often ignored in policy discussion and formulation. Many assume that just because a policy *intends* to help the disadvantaged it will in fact have the intended *effect*. Effective policy which increases the opportunities available to disadvantaged people does not spring automatically from good intentions. This will be one of the underlying themes in our discussion.

Policies That Reduce Economic Opportunities For Less-preferred Persons¹

In general there are two conditions operating singly or in combination that give rise to the probability of reduced opportunities for less preferred people. One condition is that there be restrictions on voluntary exchange such as governmentally mandated prices. The second, which is a variant of the first, is that there be restricted rights to pecuniary income.

Minimum Wage Laws

Federal and State minimum wage laws represent governmentally mandated prices that are intended to produce a pattern of events that differ from those produced in free markets. This kind of intervention in the labor market had as its origin the Fair Labor Standards Act of 1938 which provided for a minimum wage of 25 cents

per hour which has been periodically increased until \$2.65 per hour was achieved in January 1978. The current legislation requires that the minimum wage be periodically increased until \$3.50 per hour is achieved in 1981. Defenders of minimum wage laws claim that it prohibits low wages and exploitation by long hours. Defenders also argue that by preventing low wages, the minimum wage law functions as an anti-poverty weapon.

The moral issues surrounding the minimum wage law controversy are elusive and difficult to evaluate in any scientific way. However, we can scientifically study causes and effects of the minimum wage law. Reaching agreement in this arena may make the task of solving the moral and political arguments easier.

In practice legislated minima specify a legal hourly wage that is higher than that which would have occurred with free market forces. The effects of the minimum wage law that interests us most result from two important limitations on the powers of Congress: (1) While it is clear that Congress has the power to legislate wage increases, unfortunately Congress does not have the power to legislate corresponding increases in worker productivity.² (2) While Congress can legislate the price at which a labor transaction may occur, it cannot require that that transaction actually be made.

To the extent that the minimum wage law requires that some workers be paid a wage which exceeds their productivity, employers will predictably make adjustments in their use of labor? Such an adjustment will

¹ The expression "less-preferred" is used to give the analysis maximum generality. It makes no attempt to define a class of persons as less preferred in any absolute sense or intrinsic sense.

² QJ1. An expanded version of Dr. Williams' essay can be found in the Fall 1977 issue of *Policy Review*, published by the Heritage Foundation, Washington, D. C.

³ Minimum wages do not differ significantly in its effects from fraudulent grades given in our school systems. A "D" student does not become an "A" student by merely writing an "A" on his report card. Nor does a low productivity worker become a higher productivity worker by declaring himself so with the minimum wage law.

⁴ Amers, etc., victimized by anti-business ideology, do not fully understand why the businessman makes these and other adjustments. The businessman in the literal sense of the word is really an employee. Customers, acting collectively, are employers. The fact that customers exhibit preferences for lower prices to higher prices forces the businessman to make adjustments that minimize costs. If he does not, he will lose his customers (and investors) to those firms who do make the corresponding adjustments. He would not have to make these adjustments if his customers were indifferent to prices.

produce gains for some workers at the expense of other workers. Those workers who keep their jobs and receive higher wages clearly gain. The losers are those workers who are most disadvantaged in terms of marketable skills; these workers will lose their jobs and others will not be hired in the first place.

This effect of the minimum wage law is readily seen if we put ourselves in the place of a businessman and ask: If a wage of \$2.65 must be paid no matter who is hired what kind of worker does he pay the firm to hire?² The answer, in terms of economic efficiency, is for the firm to hire those workers whose productivity is at least \$2.65 per hour. If such workers are available it does not pay the firm to hire workers whose value of output is only \$2.00 per hour. Even if an employer were willing to train such a low skilled worker, the fact that the worker must be paid an amount higher than the value of his output, plus training costs, makes on-the-job training an unattractive economic proposition.

The distributional impact of legislated minima, that is, who bears the economic burden of the law, is of considerable interest. As suggested, the workers who bear the heaviest burden of the minimum wage law are those who are most marginal in terms of their skills. These are workers who employers perceive as being less productive or more costly to hire. In the U.S. labor market there are at least two well identified segments of the labor force who share this characteristic to a greater extent than do other segments. The first group consists of youths in general. They are relatively low skilled because of their age, immaturity and lack of work experience. The second group, which contains members of the first group, are some racial minorities such as blacks and Hispanics who as a result of racial discrimination and other socioeconomic factors are disproportionately represented among low skilled workers. These workers are not only made unemployable by the minimum wage law, but opportunities to upgrade their skills through on-the-job training are severely limited by law.³

It is no accident that it is precisely these segments of the labor force who are disproportionately represented among unemployment statistics. Youth unemployment, even during relatively prosperous times, is two to three times that of the adult labor force. Black youth unemployment ranges from five to seven times that of the adult population. In some major metropolitan areas it is reported that black youth unemployment is 70 percent

as is the case in Oakland, California.⁴

While most people are familiar with the current statistics on black youth unemployment (45 percent) relative to white youth unemployment (14 percent), not many are aware that this is a recent development. For example, in 1948 black youth unemployment did not differ significantly from that of white youths. For that year, blacks, age 16-17, had an unemployment rate which was less than whites of comparable age—9.4 percent unemployed compared to 10.2 percent for whites. In the same period and into the early sixties, black youths had a higher labor force participation rate than did white youths.

Faced with these statistical facts, one naturally asks why have labor market opportunities deteriorated so precipitously for black youths? Could it be that American society was less racially discriminatory then as compared to now? It would be very difficult to sustain such an argument in the affirmative. Neither could one sustain the argument that earlier blacks, as a group, had higher skill levels than their contemporary counterparts. The weight of evidence produced by academic research is that high unemployment for some population groups is directly related to changes in the level and extent of coverage of the minimum wage law. Nearly all economists who have studied the effects of the minimum wage law conclude that the most adverse unemployment effects are borne by young workers, particularly young minority workers.⁵ These observations prompted Nobel Laureate Milton Friedman, who has also studied the minimum wage law, to call it the most anti-Negro law on the books.

Racial Discrimination

The racial impact of the minimum wage law would exist in the absence of racial preferences on the part of employers. However, if employers have racial preferences, the minimum wage law serves to reinforce racial discrimination. To understand how this happens, one only has to accept the Law of Demand which postulates: the lower is the cost of an object of desire the greater is its rate of consumption, and vice versa.

For example, suppose there are two groups of workers who are equally productive but differ in some other respect. Type X workers are willing to work for \$2.00 per hour and type Y are willing to work for \$2.65. The cost to the employer of discriminating against type X workers is 65 cents per hour per employee. If, however, there were a law requiring all employees to be paid a minimum wage of \$2.65 per hour, the cost to the employer of discriminating against type X workers becomes zero! According to the Law of Demand, given a taste

² Actually the minimum compensation which must be paid a worker is considerably higher if we include fringe benefits such as medical and accident insurance, Social Security, vacation pay and the like.

³ Most people acquire work skills by working at "subnormal" wages which is the same thing as paying to learn. Inexperienced doctors (interns) work at wages which are a tiny fraction of that received by trained doctors. It is ironic and tragic that low skilled youths from poor families are denied an opportunity to gain skills. This is what happens when a high minimum wage forbids low skilled workers to pay for training in the form of working for a lower wage. Teenagers, for the most part, are not supporting families and can afford to work at low wages.

⁴ Black youths suffer more than do white youths when the minimum wage is raised. With a higher wage requirement, employers are more selective in hiring; they raise worker qualifications. Because of relatively poor schooling, higher job qualifications will exclude black youths to a greater extent than white youths.

⁵ See bibliography for a partial listing of minimum wage studies.

for racial discrimination, there will be more discrimination when its cost is lower.

The notion that it is sometimes necessary for some individuals to lower their price in order that some transactions can occur offends the sensibilities of many people. These people support the minimum wage law as a matter of moral conviction motivated by what they perceive as equity. However, these people should know that white racist labor unions in South Africa are also supporters of minimum wage laws and equal-pay-for-equal-work laws for blacks. The *New York Times* reports:

"Right wing white unions in the building trades have complained to the South African Government that laws reserving skilled jobs for whites have been broken down and should be abandoned in favor of equal-pay-for-equal-work laws... The conservative building trades have made it clear they were not motivated by concern for black workers but had come to feel that legal job reservation had been so eroded by Government exemptions that it no longer protected the white worker."

(*New York Times*, November 28, 1972.)

One can readily see why the job reservation law was being eroded when he recognizes that the wage for a skilled black worker averaged 39 cents per hour and that of a skilled white worker averaged \$1.91 per hour. Construction firms naturally sought to increase their hiring of black workers. The South African labor union supports minimum wage laws and equal-pay-for-equal-work laws precisely for the racial effect that they produce. They seek to improve their competitive position by using the powers of the state to lower the cost of racial discrimination.

Who Benefits From The Minimum Wage Law?

If one is convinced that the minimum wage law has effects such as those discussed, the next question may be: why does the minimum wage law have the strong political support it has traditionally enjoyed? In general when a law has strong political support, there is a politically powerful community of interests that benefit from the law. To identify this community of interests, we ask what group(s) of people expend the largest amount of resources toward political efforts to raise the minimum wage law and extend its coverage? In the U.S., it is unambiguously labor unions who have been the minimum wage law's strongest supporters. Initially, one may be puzzled by such a finding. Why should labor unions be the strongest supporters of the minimum wage law when their members earn wages that far exceed the legislated minimum? Could it be that labor unions are altruistic people with a deep and unending concern for the less fortunate among us?

Insights to this issue are gained when we recognize, as economists do, that for many activities low skilled labor is a substitute for high skilled labor. This means that firms can use various mixtures of labor quality to produce a given output. For example, suppose that a fence can be produced by using either one high skilled

worker or by using three low skilled workers. If the wage rate for skilled workers is \$38.00 per day and \$13.00 per day per low skilled worker, the firm which sought to minimize cost would employ the high skilled worker. The reason is that production costs would be \$38.00 compared to \$39.00 which would have to be paid three low skilled workers.

Given these conditions the high skilled worker knows that any wage demand exceeding \$39.00 per day would cost him his job. The high skilled worker would soon recognize that one of the ways to increase his income is to advocate a minimum wage of say, \$20.00 per day in the fencing industry. The arguments that the high skilled worker could use to gain political support are those typically used by labor unions: "to raise the standard of living," "prevention of worker exploitation," "reduce poverty," and so forth. After the enactment of a minimum wage of \$20.00 per day, the high skilled worker can now demand any wage up to \$60.00 per day and have a high probability of retaining his job. If there were no minimum wage, such a demand would have cost the high skilled worker his job. Therefore, regardless of the stated intentions of the minimum wage law, its effect is to price high skilled labor's competition out of the market.

Whether the example here accurately describes the motives of labor unions is not at issue. Effects of behavior do not necessarily depend upon intent of behavior. Restrictive practices promoted by unions do reduce employment opportunities and therefore the income of many. This fact suggests that as a requirement for political success, an integral part of union strategy must contain support for various income subsidy programs. The reason is that large numbers of people without jobs and income presents a dangerous social powder keg. Therefore, it is likely that unions will lead the support for income subsidy programs such as foodstamps, welfare, and make-work manpower programs. Union support for these programs may explain why minorities and their political leaders give unions strong support. Union support for these programs give the *impression* that unions are pro-minority. Thus in an important sense, minorities are captured union constituents. If they do not politically support union goals which put them out of work in the first place, the unions will not support the government handouts that they receive as a result of being out of work.

Income subsidy programs disguise the true effects of labor market restrictions created by unions and other economic agents by casting crumbs to those denied job access in order to keep them quiet thereby creating a permanent underclass. As such the programs constitute a redistribution of income from the society at large who are not only taxed more and more to support these programs but pay higher and higher product prices caused by artificially high wages.

The fact that U.S. labor unions engage in restrictive labor market practices which have an adverse impact on disadvantaged segments of the labor force should not

be interpreted as anti-minority sentiment on behalf of unions. This, today, I believe is true despite the fact that historically the labor movement in the U.S. sought to exclude blacks and other minorities from many job markets. In fact, past black leaders almost unanimously condemned labor unions. Booker T. Washington and W. E. B. DuBois were lifelong foes of trade unions. W. E. B. DuBois called them "the greatest enemy of the black workingman." But labor unions in DuBois' time and labor unions in our time have one primary concern: to improve the compensation and working conditions for their members. In pursuit of these goals, they often behave in ways that reinforce handicaps suffered by minorities and other disadvantaged workers.

Widely Accepted Myths About The Labor Market

Effective legislative policy to solve many labor market problems has been hampered by a number of myths that have received wide currency. Debunking these myths is a first important step for intelligent policy formulation.

Myth Number One—"The unemployment problem faced by youths and others is that there are no jobs available." This statement accepted at face value is the same as saying that all human wants have been satisfied and no one wants more of some good or service. There is no evidence to support such an assertion. The quantity of labor hired depends on its price. The higher its price the less that is hired. What people really mean to say is that at some particular wage there are no jobs available for some people. Nothing is strange about this observation. At some particular wage, anyone will find that his labor services are not demanded. For example, if the writer informed his employer that the minimum wage that he were willing to accept is \$75,000 per year, he would find his labor services unused (unemployed). This notion applies to any worker. The differences that we find are: a wage that causes *some* people to be unemployable is higher than that which would cause *other* people to be unemployable.

Myth Number Two—"The minimum wage will give workers increased purchasing power which will sustain high employment." This myth assumes that workers keep their jobs and work the same number of hours as before. Some workers will and some will not. The workers who lose their jobs as a result of a hypothetical right to earn \$2.65 will find that the hypothetical right will not buy them groceries or clothes. (It is also important to realize that a wage increase does not automatically mean an increase in purchasing power; if the wage increase is not based on increased productivity, it is artificial and leads only to an increase in prices and therefore a decline in purchasing power.)

Myth Number Three—"If teenagers are allowed to work at subminimum wages, sons will be employed while fathers go unemployed." This statement is an example of the *lump of labor fallacy*. It assumes that there are a finite number of jobs and the acquisition of

a job by one person of necessity requires that another person lose his job. There is no evidence to support this contention. After all, the number of persons holding jobs during the colonial period numbered less than one million; today there are over 94 million persons holding jobs in the U.S. economy. The overwhelming effect of a subminimum wage for youths would be that of increasing total employment.

Myth Number Four—"Many people are unemployed because they have low skills and few job qualifications." Low skills explain low wages but cannot, alone, explain unemployment. People are qualified or unqualified only in a relative sense, relative to some wage. For example, a carpenter who is *qualified* and hence *employable* at a wage of \$5.00 per hour may be *unqualified* and *unemployable* at a wage of \$12.00 per hour. This idea applies to anything. A Sears suit is unqualified to sell for the same price as a Pierre Cardin suit. Sears suit, if required by law to sell for the same price as a Cardin suit, would be unemployed (unsold).

Myth Number Five—"High youth unemployment reflects the baby boom of the post World War II era." This myth reflects a basic misunderstanding of the laws of supply and demand. Given a demand, an increased supply of labor results in lower prices, not unemployment. It just happens that in U.S. labor markets, prices are prevented from adjusting to those consistent with full employment.

Myth Number Six—"Widespread automation is the cause of high unemployment rates for a large sector of the labor force." This myth reflects amnesia and the lump of labor fallacy. First, higher relative wages are the chief cause of automation. When wages rise relative to capital, firms have incentives to substitute capital for labor. For example, when elevator operators negotiated a wage rate that exceeded their productivity, a few years later we saw widespread installation of automatic elevators. When tomato pickers were brought under the minimum wage law, later we saw widespread use of tomato harvesting machines. As the Californian Farmworkers organize and secure higher wages, we now see the introduction of grape picking and strawberry picking machines.

Second, this myth is an example of the lump of labor fallacy because it asserts that society has no use for the labor displaced by machinery. We have already debunked this myth.

Myth Number Seven—"The minimum wage law is an anti-poverty weapon." If this were true, we would have an instant solution to the world's poverty and underdevelopment. We would just advise countries to raise their minimum wage. The sad fact of business is that low skilled workers are not so much underpaid as they are underskilled. The way to help them, and as well poor countries, is to make them more productive; this cannot be done with a stroke of the legislative pen.

Myth Number Eight—"High unemployment of inner city blacks is due to jobs moving to the suburbs." *Fact:* the ratio of black to white unemployment in suburban

areas (those that have large black populations) is very similar to the ratio of black to white unemployment in the cities.

These and many other labor market myths have maintained their popularity down through the ages primarily because they have been self-serving to particular interest groups and because many people are decent and persuaded by moral argument. Debunking of these myths is an important ingredient towards the solution of unemployment and poverty for large segments of American society.

Other Legal Restrictions on Economic Opportunity

The minimum wage law is only one among many forms of government backed restrictions or collusions whose adverse effects are disproportionately borne by low skilled, poor people. Licensing laws, while having some social merit, limit entry into businesses and trades and hence reduce employment opportunities. Restricted entry also has the effect of causing prices and incomes in the licensed activity to be higher than otherwise would be the case. The latter effect helps explain why incumbent practitioners (and not consumers) most frequently lead the movement towards the licensing of a particular activity. Once an activity is licensed the trade association has real enforcement powers because most of the time the members of the state licensing boards are incumbent practitioners in the licensed activity.

The relevance of licensing to the discussion of unemployment is that it is a form of market entry restriction that produces effects harmful to the disadvantaged. For example, the taxicab business is one in which there are relatively low skill and capital requirements to become an owner-operator. It is one where a lucrative income can be earned. But participation by many would-be entrants is severely limited by law. Some cities, most notably New York, require that a would-be taxi owner purchase a medallion (license) for each taxi owned. In New York City this license costs \$52,000.00! Chicago, Baltimore, Boston and many other cities require the payment of fees from \$18,000 upwards. There is no social justification for such high fees. The high fees serve to exclude new entry and confer monopoly benefits on incumbent owners.

By contrast, Washington D.C. has very nominal fees for entry. One can own and operate a taxi in Washington for fees which total under \$200.00. Washington, as a consequence, has not only lower fares, higher quality services, but blacks as a percent of the population who own taxis are the highest of American cities.

CONCLUSIONS

Space limitations preclude the discussion of literally hundreds of government imposed restrictions on market entry. The cost of these restrictions are not only in the form of reduced economic opportunities for the disadvantaged. The cost is also borne by American *qua* consumers and taxpayers. Market entry restrictions re-

duce employment opportunities and Americans, as taxpayers, are increasingly taxed to provide income for those denied jobs. Americans, as consumers, pay again through inflated prices for goods and services.

It is a fact of history that there have been many despised minority groups who came to our cities and quickly entered the mainstream of American society *en masse*. The most recent migrants to our cities, blacks and Hispanics, have not as readily done so. The most tragic element of their plight is that society may come to view their difficulty (in spite of the billions of dollars spent, in spite of civil rights legislation, in spite of the thousands of cases of civil rights litigation) as group incompetence, and as such the most racist elements of society will have their prophecies realized. No one ever considers that an important difference between earlier migrants and today's is that other ethnic groups came to our cities when we had a freer society. There were not many laws restricting market entry and opportunity in seeking the solution to the difficulty, hardly anyone acknowledges that many, if not most, of the problems encountered by today's minorities are due to the excesses of government influenced by politically powerful interest groups. These groups in the pursuit of their interests contribute to the enactment of laws which spell disaster for some Americans.

I argue that if we froze or abolished minimum wage legislation, reduced restrictive licensing, reduced labor union monopoly and reorganized the delivery of education, in a half century there would be no black or Hispanic "problem" just as there is no Japanese, Chinese, Jewish, Polish or other immigrant problem. These earlier immigrants were able to get a foot on the economic ladder and progress upwards. What the society has done through restrictive laws, is remove the bottom rungs on the economic ladder.

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MEMBERSHIP RESPONSE TO MINIMUM WAGE ISSUES

<u>MANDATE</u>	<u>QUESTION</u>	<u>FAVOR</u>	<u>OPPOSE</u>
391	Are you for or against an increase in the Federal Minimum Wage?	6%	93%
393	Are you for or against youth exemption from the minimum wage law for 16-19 year old workers?	77%	21%
405	Do you favor or oppose exempting from the minimum wage all businesses with less than \$750,000 in annual gross sales?	63%	34%
406	Do you favor or oppose paying workers in public jobs programs the minimum wage?	66%	30%
413	Do you favor or oppose a rollback of the scheduled minimum wage step increases to 5.5 percent for each step increase?	83%	12%
427	Do you favor or oppose deferring indefinitely the minimum wage increases scheduled to go into effect in January 1981?	75%	21%
432	Do you favor or oppose creating a lower minimum wage for teenagers and students?	80%	18%

(Note: In the interest of economy, the report entitled "NFIB Employment Report For Small Business," November 1977, was retained in the files of the committee. The report may be researched from the copy in the committee files, or if copies are desired, write to National Federation of Independent Business, 490 L'Enfant Plaza East, S.W., Suite 3206, Washington, D.C. 20024.)

Mr. ROUSH. Mr. Chairman, I will be very brief.

The materials that I and others have submitted for the record overwhelmingly support the idea that the minimum wage requirements should be loosened, particularly for young people. Economic theory and empirical evidence both conclusively show that the minimum wage creates a class of unemployables. But rather than repeat the lessons of Economics 101 or the results of numerous empirical studies, I will just state the situation in one sentence.

No prudent individual willingly pays more for something than it is worth. Another way of saying the same thing, given today's harsh economic environment, is that you do not buy what you cannot afford. Unfortunately, it is the services of unskilled, inexperienced teenagers that small business are increasingly unable to afford because of the minimum wage. Unskilled, inexperienced teenagers typically do not yield in productivity the legislated cost to the employer of hiring them.

The minimum wage is an injustice to consumers and employers, but particularly to teenagers. An overall teenage unemployment rate of 18 percent is nothing short of disastrous, and a minority teenage unemployment figure of around 40 percent is verging on criminal. No humane, concerned person should oppose any proposal that has the least chance of turning these faceless unemployment statistics into real-life, productive, working citizens.

Mr. Chairman, the National Federation of Independent Business, representing, as I said, the majority opinion of 539,000 small businesses, including 143,000 in the retail and food service industries, 55,000 in general construction, and 60,000 in manufacturing, would like to recommend the enactment of some form of a youth opportunity wage, preferably the simplest, most easy to understand and implement proposal possible, particularly the one you have introduced in S. 658.

In addition, since small businesses are where teenagers and other marginal workers most often turn for a job—for example, in 1977 more than two out of three teenagers worked for small businesses and 56 percent of all employees worked for small businesses—we would like to recommend for your consideration a broadening of the existing small business exemption from the minimum wage law to bring it more in line with the pre-1966 form; that is, we would like to see it expanded so that all businesses with less than \$2 million in gross sales are completely exempt from the minimum wage law. The current exemption, as you may know, is for retail and service industries with less than \$325,000 in gross sales. But prior to 1966, the level was \$1 million, and we would like to see it brought closer into line and adjusted for inflation to that number.

Even on a trial basis, either or both of these ideas ought to be tried in the name of compassion, if not in the name of economics.

That is basically it, Mr. Chairman. I would be happy to answer any questions at the appropriate time.

Senator NICKLES. Thank you. Are your guests owners of small businesses?

Mr. ROUSH. Yes. I will go to Mr. Thorn first, if it is OK with you.

Senator NICKLES. May I ask them questions?

Mr. ROUSH. Certainly.

Senator NICKLES. Mr. Thorn, I will ask you a question. How many people does your business employ?

Mr. THORN. We have a total of four.

Senator NICKLES. Four?

Mr. THORN. It is a small employment placement business.

Senator NICKLES. Do you pay minimum wage?

Mr. THORN. No, sir.

Senator NICKLES. Do you pay more than the minimum wage?

Mr. THORN. Yes.

Senator NICKLES. If we enacted any or all of the laws we are talking about, do you think this would enhance the likelihood that you would employ more people?

Mr. THORN. No. I have no personal ax to grind on whether the minimum wage goes up or down other than how it would impact employment or wages as a whole. My primary experience with the minimum wage is through my contact with employers for whom we work, and I can report what my perceptions would be of what their actions would be in working through us. We do not place people in minimum wage, simply because people in minimum wage are either low skill or no skill or no experience, and no employer is going to pay a fee for us to find him a low-skill worker.

As a result, that low-skill worker really has nobody going to bat for him or trying to find him a job. Now, I submit that the public employment service is charged with that responsibility. They have so many responsibilities spread across the board that they are not able to focus their full attention on the low skilled. It is a lot easier to place a computer programmer than it is to place a 10th grade dropout with no experience.

Senator NICKLES. Mr. Burkhart, would you tell us a little about your business and what this would do or not do to your business?

Mr. BURKHART. Well, in the past, I have always hired employees through the distributive education programs in our local community. Since the last two increases in the minimum wage, I have had to cut back on the number of young people I employ. I now hire adults on a part-time basis, as I can get the maturity for the same price.

These increases have also caused us to cut back on the total number of employees and, of course, we regret this very much. The pleasures of working with young people and teaching them and seeing them develop and move on to colleges and universities and become young adults in our society are missed by us.

I think we need some assistance in the area of a subminimum wage.

Senator NICKLES. Who needs assistance more? Do the young people need it more or the businesses? A lot of people are saying this will only benefit "XYZ" company, but I have not heard many "XYZ" companies coming forward and saying, "Hey, this is going to be a great benefit to us."

I see the real economic benefit going to the person that cannot find the door to economic opportunity.

Mr. BURKHART. Well, as I said, we use young people through the high school programs. Since the wages have been raised, I have terminated four employees.

Senator NICKLES. Young or old?

Mr. BURKHART. Young employees. I also, as I said, use the older people now because I have to pay the minimum wage. As Senator Williams mentioned a while ago, I have a permit so that I can work six full-time students at 85 percent of the minimum. I do have a permit, and I use that permit for some of them now.

Senator NICKLES. Have you found that permit to be bureaucratic, or a nuisance?

Mr. BURKHART. Well, there is paperwork involved; you know, timesheets have to be kept to make sure you do not work more than six per day.

Senator NICKLES. Is that a hassle; is it worth the difference? I am an employer too and I do not—

Mr. BURKHART. Most of mine make minimum wage, with the exception of the 6 on the permit. So, I basically have 14 making the minimum wage, and then 6 that are not.

Senator NICKLES. Mr. Roush, you work for the NFIB, is that correct?

Mr. ROUSH. Yes, sir.

Senator NICKLES. You represent thousands of small businesses of small sizes. Do these businesses have under 100 employees?

Mr. ROUSH. Our average member has 11 employees.

Senator NICKLES. Do you have a very strong belief that if we were to adopt the bill which I have proposed, which would exempt persons under the age of 18 from the minimum wage, you would see an increase in the number of jobs or a displacement of people who are presently in the system?

Mr. ROUSH. From our own internal information, I am convinced that we are talking about new jobs. In 1977, this employment report that I have submitted for the record investigated new hires—who they were and how much it cost an employer to hire them—and how many applicants he had for any given job at any given wage level.

For the unskilled manual and sales categories, where typically teenagers are employed, and typically temporarily, there were almost four applicants for every job at that time. This summer, we are going to be doing a followup study, which hopefully will bring into sharper contrast the fact that we are talking about new jobs.

In addition to that kind of systematic research, we have anecdotal information, letters we receive from our members, and these pollings that we do just on "pro" and "con." These six issues that we polled are over a period of 4 or 5 years, and they are always 90 percent in favor of reducing the minimum wage. They always generate letters, of course, when we poll them, and all of that evidence is that it would create new jobs, particularly for young people.

If I might, Senator, the program that Senator Williams indicated is not being used—the student certificate program—the figures that I have do not tell me that it is not being used; they beg to be further investigated. For instance, in 1977, in just the retail and service industries alone, 19,000 of those certificates were issued. In the last fiscal year—again, just in the retail and service industries—30,000 of those certificates were issued. So, it is not clear to me that the program is not being used.

Senator NICKLES. I personally have serious reservations about looking into that program and seeing all the redtape that is involved; I can see a lot of employers taking a peek at it and saying, "No, it is not worth the hassle."

I might ask you another question. You indicated something that very closely paralleled a point I made in my opening remarks. Basically, I think, many people—I do not want to paraphrase and I will let you restate your words—many 16- and 17-year-olds, with their limited skills and limited experience, et cetera, are not worth \$3.35 an hour or \$134 a week, and therefore that is the economic consideration.

Let us say they are worth \$100 a week, or \$2.50 an hour, and in a very marginal business, maybe that can be determined. A lot of small businesses may not be able to pay the difference between \$100 and \$134, not to mention the added cost of matching social security, et cetera.

Do you think that difference is the real limitation and is closing the door of employment? It is economic reality that 16- and 17-year-olds who are prohibited, by the act we are discussing, from working in industrial jobs, et cetera, do not have those skills and perhaps should not be in the same "base, protective minimum wage" level as adults?

Mr. ROUSH. Yes, sir. Although it has been characterized in the past by people opposing change in the minimum wage as somehow lacking compassion or lacking in humaneness to talk about people not being worth \$3.35 an hour, the question is not whether the people are worth \$3.35 an hour; it is whether their skills are worth \$3.35 an hour.

All of the evidence we have from small business owners, who hire most of the teenagers—show that their feeling is that they do not get back in productivity the \$3.35 that it costs them. It is as simple as that. It is hard for me to understand, frankly, somebody who cannot understand that.

Senator NICKLES. Senator Williams, do you have any questions?

Senator WILLIAMS. Yes, thank you.

I notice in your statement that in response to your polling, 21 percent were registered in opposition to the subminimum wage.

Mr. ROUSH. Yes, sir.

Senator WILLIAMS. Did you follow up to get any reasons why they opposed the idea of a subminimum wage?

Mr. ROUSH. Not in a systematic way. In this report that we did on employment, there was some investigation of that nature. It seems to indicate primarily—and I am speculating, frankly—that people who were opposed to it were people who do not deal with minimum wage workers, and there are those high-tech firms in the small business community that do not have dealings with these kinds of people; they have no need for this type of employee. That is the only thing I can speculate. Then there are, of course, people who, just for philosophical or moral reasons, or whatever reasons, oppose it, and I would assume that they compose part of that 21 percent.

Senator WILLIAMS. On the student certification program for the subminimum, I do not believe I said that it is not being used. I wanted to suggest that its acceptance has been negligible in terms

of the opportunities that are offered which suggests to me that it does not impress itself as that degree of critical need that proponents of the subminimum suggest.

We have always thought—and as a matter of fact, I have thought this since 1972 when the thought became indelibly impressed on my mind—that there are certain areas of industry that were particularly eager to have an opportunity to employ people at less than the legal minimum wage. The fast food industry has over the years since 1972, strongly indicated that their kind of operation lent itself, in their terms, ideally to employment opportunities at a subminimum for youth.

I was surprised when I learned that the fast food industry as an industry and their major participants in the industry indicated that that is not the case this year.

Mr. ROUSH. Mr. Chairman, that is one of the reasons I cited that figure of 143,000 of our members that are in the retail and food service industries. Our contention is that despite what some of those industry representatives say, we probably represent more of those kind of businesses than they do, and our members would like to see a subminimum wage.

Senator WILLIAMS. There is just one other point, and this will be dealt with, I think, by Mr. Kirkland later on. A true bonanza of tax credit now exists for the employment of certain categories of people, including youth from the disadvantaged, low-income families, and it is rarely utilized.

It just impresses me that you can theorize a great result from the subminimum wage in terms of new employment opportunities. But we have to look at whether these opportunities will in fact, follow. There are so many unemployed now from all strata of society that I am wondering whether we would get any significant employment opportunities out of a youth subminimum.

Mr. ROUSH. The job tax credit you are speaking of—we polled our members on that before it was considered, and they substantially rejected the idea before it was implemented. They were telling us that they, in fact, would not use it, and I think that history has borne that out.

Perhaps Mr. Burkhardt—I do not know if he is even aware of it as a small businessman. But if he is aware of it, I doubt that he uses it.

Mr. BURKHART. I am aware of it, but I do not use it.

Senator NICKLES. Senator Kennedy or Senator Quayle, do you have any questions?

Senator QUAYLE. I just have one question that maybe has already been gone over.

Do you have any data—and maybe you have it in your statement and I have not had time to read it—on this displacement issue? There seems to be an argument that you hear time and time again that if a subminimum wage is adopted, there is going to be displacement; that they are going to hire young people in place of adults.

Do you have any information that you can share with the committee on that particular issue?

Mr. ROUSH. At this time, internally generated information on our own research, we do not have. By the end of the summer, we

expect to have some because we have commissioned an employment study; it will take that long to complete.

The only information we have is anecdotal information from members like Mr. Burkhart, who tells us that he will not be firing experienced workers to hire inexperienced, subminimum workers. That is the only kind of evidence we have right now—anecdotal information.

Senator QUAYLE. Do you have any information as to the tax credit or the wage subsidy that we have in place now; that there has been any displacement and that there has been a bias toward youth and away from adults?

Mr. ROUSH. We have no information on the tax credit.

Senator QUAYLE. You do not have any information?

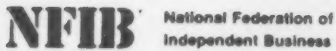
Mr. ROUSH. I do not think many of our members use it at all.

Senator QUAYLE. Thank you, Mr. Chairman.

Senator NICKLES. Thank you, gentlemen. We appreciate your interest and your testimony on behalf of the subminimum. I am going to call that the youth opportunity wage, not the subminimum.

Mr. ROUSH. Thank you, Mr. Chairman.

[The prepared statements of Mr. Roush and Mr. Burkhart follow:]



STATEMENT OF
MICHAEL O. ROUSH
LEGISLATIVE REPRESENTATIVE
NATIONAL FEDERATION OF INDEPENDENT BUSINESS

Before: Senate Committee on Labor and Human Resources,
Subcommittee on Labor
Subject: Youth Opportunity Wage
Date: March 25, 1981

Mr. Chairman, I am Michael Roush, Legislative Representative for the National Federation of Independent Business (NFIB). I am pleased to have this opportunity to testify concerning youth employment and possible changes in the Fair Labor Standards Act. Accompanying me today are three members of the NFIB. They will testify concerning their own businesses and how changes in the Fair Labor Standards Act would affect them.

NFIB Minimum Wage Position

Small businesses are particularly victimized by the current hostile economic environment. They are unable to absorb the numerous costs that result from inflation and high interest rates. Consequently, an inordinately large number are failing and relatively few people are able to start new businesses.

Rising labor costs put a particularly heavy burden on small businesses. NFIB members, numbering over half a million independent businesses, are among those firms most burdened by labor costs. Small employers have been forced to lay people off whenever wage rates go up. An increasing wage rate, therefore, has exceptionable consequences for labor as well as for business.

Rising labor costs have compelled small businessmen to cut back on services and product quality as well as labor. Larger competitors who are better able to pass on the increased costs do not have to compromise these aspects of their businesses. The result is that small, labor intensive firms have difficulty competing with larger competitors. Let us look at the dilemma encountered by small businesses confronted with a legislated minimum wage increase. Imagine a small firm with an income statement similar to that in Figure 1. The numbers used are based on approximations from actual income statements.

FIGURE 1

Adjustment to the Minimum Wage Hypothetical Income Statement

<u>Revenue</u>		<u>Expenses</u>	
\$100,000	2	Wages, Benefits	\$20,000 1
		Materials	50,000
		Energy	2,000 4
		Rent	3,000
		Other	10,000
		Owner's Gross Income	15,000 3

Assume a minimum wage increase results in an extra cost to an employer of \$1,000 per year. There are four basic ways this additional cost can be absorbed:

1. The firm may pass the cost on to the customers by raising prices of goods and services.
2. The firm can keep total wage costs unchanged by reducing hours and/or employment.
3. The owner can pay the increase out of his own earnings.
4. The firm can adjust other expenses. Since there is no reason for firms to be inefficient (not maximize its income) under most conditions, it is generally presumed that this means a decline in product quality or service.

The actual response to a higher minimum wage will in fact be a blend of these alternatives. All of them have notable consequences for the whole economy if many small businesses are forced to choose between them.

The first alternative, passing costs on to consumers, is inflationary. It raises the cost of goods to the consumer, thereby completing the inflationary cycle. Also, increased prices make small business less competitive.

The second alternative, laying people off, results in disemployment. People are displaced because small employers can no longer afford the cost of labor. The phenomenon can be explained in supply and demand terms. The higher the cost of a product (labor in this case), the lower consumer demand will be. This of course depends on the elasticity of the product (i.e. demand sensitivity to price). Numerous studies have examined the demand elasticity for

labor of various demographic groups.^{1/} They have shown that certain classes of workers have a greater demand elasticity than others. Teenage workers, for instance, are a highly elastic labor commodity. Adult workers, on the other hand, who have had years to develop basic job skills, or even a technical skill, have a low demand elasticity. This means youth are the most likely to be displaced by higher labor costs.

The third alternative, owners paying the additional cost out of their own pockets, would have little immediate effect on labor. But, this is not a burden we can expect small businessmen and women to bear. In 1977, an estimated 10 to 15 percent of NFIB members themselves made less than the minimum wage. Further, our data indicate earnings for the entire small business population are at very low levels.

The fourth alternative, adjusting other expenses, causes a small business to cut back on product quality or services. These services are often what make small businesses competitive with big business. By cutting these services, small businesses lose valuable customers.

NFIB would like to see the competitive quality of small businesses preserved. Likewise, most consumers would like for small businesses to remain viable competitors with big business. The Fair Labor Standards Act is very important to small business in this regard. If minimum wage requirements do not distinguish between large and small firms, subjecting small businesses to the same costs as large businesses, then the small business element of our economy will either disappear or be pushed to insignificance.

This would present a serious problem to labor. Small businesses create the great majority of new jobs. Further, small businesses employ well over half the people who work in this country. In the retail trade alone, in 1977, about 56 to 57 percent of all employees were employed by firms with less than 50 employees. It is not likely that if small businesses disappear from the commercial community, remaining large firms will have the inclination or capability to hire the excess labor.

It is imperative that policy makers be cognizant of the special economic realities of small businesses. Otherwise, legislation will only exacerbate a nearly intolerable situation. Accordingly, NFIB supports a substantial broadening of the small business exemption to the Fair Labor Standards Act, and some form of youth opportunity wage.

Prior to the Fair Labor Standards Amendments of 1966, the annual dollar volume test for enterprise coverage, found in the Act's definition of enterprise, was \$1,000,000. Today, after inflation, a comparable annual dollar volume test would have to be about \$3,200,000. However, since the 1966 and 1967 amendments, because of legislative changes, the annual dollar volume test ranges between \$250,000 and \$500,000. This is inadequate.

In order to create a more hospitable economic environment for small businesses and teenagers in the labor market, the definition of enterprise should be amended to exclude any firm that has an annual gross sales volume of less than \$2,000,000. This would

greatly simplify the Act and exempt a larger number of small businesses, although not as many as were exempt prior to the 1966 amendments. In addition to easing economic pressure on small business, this exemption would create a greater demand for labor, particularly for young people.

NFLB also supports the creation of a youth subminimum wage. This would allow employers to pay youth employees less than adult employees. The purpose of such a wage structure is to ease specifically the unemployment problem of youth. The theory is that the job market for youth would grow and employers could hire more people.

Economists who have studied the issue tend to agree that a 10 percent increase in the minimum wage rate causes a 1 to 3 percent decrease in employment among teenagers.^{2/} This happens because an increasing minimum wage eventually exceeds the value of youth labor. Consequently, it is cost effective for an employer to not hire young workers or to eliminate those jobs that typically have a productivity yield of less than minimum wage.

Daniel S. Hammermesh, a Michigan State University economist, found that a 75 percent subminimum wage would significantly reduce youth unemployment. Further, this could be accomplished with relatively little encroachment on the adult job market. Such a wage structure, he contends, would create 381,000 jobs for teenagers at a cost of 41,000 jobs to adults. This is a ratio of 9.2 new jobs for teenagers at a cost of 1 job for an adult.

Would such a cost be outweighed by the benefits of providing jobs for 381,000 teenagers? These 381,000 new jobs would have reduced teenage unemployment in the summer of 1980 by over 18 percent. This is a significant gain on a steadily increasing teenage unemployment rate. Teenage unemployment has its own consequences; a lower GNP and a growing crime rate are examples.

A youth subminimum wage would have benefits for small business as well as for youth labor. Employers could once again employ teenagers to do jobs that are not highly productive and were eliminated because of a high minimum wage. Examples of these types of jobs are bagging groceries, cleaning windshields at service stations, helping customers at a store, etc. This would make small business, particularly retail and service firms, more appealing to customers because of the increased services they could provide. The ultimate result is that small businesses are better able to compete with large businesses.

NFIB opposes indexing the minimum wage because indexing removes the issue of rising labor costs from public attention. The Congress should be conscious of every increase of the minimum wage. The only way this can be insured is to require Congress to take an affirmative, express action to raise the minimum.

Because the stated intent of the minimum wage is to increase the purchasing power of low wage earners and to redistribute income, it is not appropriate for the issue to be denied the full attention of the legislature. Indexing the wage rate would have that effect.

The direct economic effects of indexation have already been alluded to. Whenever minimum wages go up and exceed the productivity level of some workers, those workers will become unemployed. Further, price instability is encouraged because of cost increases to businesses. Indexation, therefore, contributes to unemployment and inflation for the sake of convenience to Congress.

Conclusion

In conclusion, I would like to point out that a number of representatives of the business community have recently expressed indifference toward this issue, or come out against the proposal. The NFIB represents over half million small businesses. Our membership has been polled on the issue and they were overwhelmingly in favor of the idea (77% for, 21% against). Big business may not support the idea, but small business does. Further, the serious youth unemployment problem must be ameliorated. A Youth Opportunity Wage and a broader small business exemption could be of great help in this regard.

Thank you.

ENDNOTES

1/ See for instance, Edward M. Gramlich, "Impact of Minimum Wages on Other Wages, Employment, and Family Incomes," Brookings Papers on Economic Activity, 2 (1976), 409-461.

Finis Welch, "Minimum Wage Legislation in the United States," excerpt from Evaluating the Labor Market Effects of Social Program, by Orley Ashenfelter and James Blum. Princeton University Press: Research Report Series NO. 120, 1978.

2/ See for instance, Douglas Adie, "Teenage Unemployment and Real Federal Minimum Wages", Journal of Political Economy, March-April, 1973.

Nabeel Al-Salam, Aline Quesier, Finis Welch, "The Effects of Cohort Size and Minimum Wages on Youth Employment", presented at American Enterprise Institute on Legal Minimum Wages, November, 1979.

Gramlich, Loc. cit.

Hyman Laitz, "Experience of the Past: The National Minimum: in Youth Unemployment and Minimum Wages," Bulletin 1657 (1970).

STATEMENT OF

Mr. John Burkhardt
Murfreesboro, Tennessee

Before: Senate Committee on Labor and Human Resources,
Subcommittee on Labor

Date: March 25, 1981

Mr. Chairman and Members of the Labor Committee:

My name is John Burkhardt, and I operate a young men's and young ladies' clothing store in Murfreesboro, Tennessee. In the past I have always employed young persons in my store until the last two increases in the minimum wage. I have worked through the Distributive Education Programs in the local high schools of our community.

Since the last two increases in the minimum wage, I have had to cut back on the number of young people I employ. I now hire adults on a part-time basis as I can get the maturity for the same price. These increases have also caused us to cut back on our total number of employees, and I regret this very much.

The pleasures of working with and teaching young persons and then seeing them develop and move on to colleges and universities and become a young adult in our society is missed by us.

Because of this, I respectfully request that the Committee consider lowering the minimum wage for students and teenagers.

I would also like to address the gross sales requirement concerning minimum wage. In 1966, the gross sales requirement, before the minimum wage was required, was \$1,000,000. Since that time, this dollar level has been lowered. Due to inflation, I feel the requirement actually should have been raised rather than lowered. I, therefore, suggest that the requirement before a merchant must pay minimum wage be increased to \$2,000,000 to assist the independent businesses in their fight against inflation. I wish to point out that I believe the independent businesses of America are the backbone of the nation. Their owners live and work in the communities and put more time and effort into the community than most other groups.

In the past few years, bankruptcies have taken their toll on the independent businessman. During the times of high inflation, this will increase; and the independent businessman needs all the help this Committee can give him to maintain his business. By helping the small and independent businessman, you will also be taking a giant step toward reducing the teenage unemployment rate.

Your consideration of my suggestions regarding the minimum wage and the gross sales requirement before minimum wage will be greatly appreciated.

Senator NICKLES. Our next guest is Mr. Lane Kirkland, who is president of the American Federation of Labor and Congress of Industrial Organizations.

Mr. Kirkland, might I ask you to introduce the people who are with you.

STATEMENT OF LANE KIRKLAND, PRESIDENT, AFL-CIO, ACCOMPANIED BY RAY DENNISON, LEGISLATIVE DIRECTOR, AFL-CIO, AND RUDY OSWALD, DIRECTOR OF RESEARCH, AFL-CIO

Mr. KIRKLAND. Thank you, Mr. Chairman. I am Lane Kirkland, president of the AFL-CIO. I have with me Ray Dennison, the legislative director of the AFL-CIO, and Rudy Oswald, director of research.

Senator NICKLES. Welcome, gentlemen, and we welcome your comments and input on this particular legislation. We would like to also ask you some questions.

Mr. KIRKLAND. Thank you, Mr. Chairman. You have my full statement. In the interests of time, I will abbreviate it.

Senator NICKLES. Thank you.

Mr. KIRKLAND. Mr. Chairman, I appreciate this opportunity to present the views of the AFL-CIO on amending the Fair Labor Standards Act to provide for a youth minimum wage differential. I note that the bill titles all purport to offer youth opportunity. I do not believe that most teenagers would view a subminimum wage as an opportunity wage, nor do I believe that teenagers currently employed at or above the minimum wage, or adult workers who are paid relatively low wages, would accept the creation of a new class of workers who will displace them at 75 percent or 85 percent of the minimum wage.

The AFL-CIO is opposed to a subminimum wage for a number of reasons. We believe that the minimum wage represents a floor under wages that no worker, whether young or old, black or white, should be asked to work for less than the wage floor.

We are concerned with the high level of teenage unemployment, but we are equally concerned with the fact that there were 7.8 million unemployed in February 1981 and that 6 million of them were 20 years of age or older. We recognize that the economy is generating too few jobs for the old as well as the young. The answer to this problem is the creation of more jobs, not a super-low wage pool of exploitable young workers for the same businesses that are being granted tax breaks.

Those who seek a lower wage floor for teenagers must accept the fact that a two-tier minimum wage would create higher unemployment among older workers. They are opting for equalizing the rates of unemployment in the various groups rather than eliminating the cause of unemployment. They are fostering discrimination on the basis of age, encouraging school dropout, and creating tensions in the workplace.

There is so much talk today about what the public wants and expects from the new administration that you may be interested in the findings in a recent Gallup poll of February 1981 dealing with the subminimum wage issue. Among the key findings in this poll was that the views of those respondents who were familiar with

the proposals for a youth subminimum were almost equally divided for and against the proposal.

However, opposition to such a wage was greatest among those groups which would be directly affected by the subminimum; namely, teenagers and younger adults, blacks, and those with less formal education. For example, of those expressing views on the subminimum wage, almost 60 percent of the youths aged 18 to 24—the lowest age grouping shown in the survey—were opposed, and about 70 percent of the blacks were opposed.

Senator NICKLES. Mr. Kirkland, might I interrupt. I think you were out of the room when I stated this, but we asked or requested all of our guests try and hold their remarks to about 5 minutes. I think we all have some questions that we would like to ask you. We will submit your entire statement into the record. I think other members have also read your statement.

Mr. KIRKLAND. I am perfectly happy to stop it at any point, sir. If you want to proceed to questions now, it suits me.

Senator NICKLES. Well, I would welcome that and I think other members would too. I will begin.

Do you represent any members that are presently paid the minimum wage?

Mr. KIRKLAND. Yes, sir.

Senator NICKLES. What percentage of your organization receives minimum wage?

Mr. KIRKLAND. A small percentage, sir.

Senator NICKLES. Senator Percy gave a very strong argument for the possibility of a trial area. He mentioned a couple of cities of possibly expanding that into, particularly in the many areas across the country that have very high youth unemployment.

You mentioned that you are opposed to the existing proposals. Would you be opposed to the trial in select areas?

Mr. KIRKLAND. The trial of a subminimum wage in selected areas?

Senator NICKLES. Let us say exempting young people from the minimum wage, or a differential of 75 or 85 percent of the minimum wage for areas like Chicago, New York, and Los Angeles.

Mr. KIRKLAND. Yes, sir.

Senator NICKLES. You would be opposed to that?

Mr. KIRKLAND. Yes, sir. I am opposed to it for the reasons that we state; I see no reason to be for it on a partial basis.

Senator NICKLES. Would it have any negative impact to your organization?

Mr. KIRKLAND. My organization? It would have a negative impact to the objects, aims, and principles of my organization, which is to try and elevate the conditions of life for working people in this country.

Senator NICKLES. We are talking about working people, and I share your concern. I will totally agree with your statement that the answer to the problem is the creation of more jobs. Some of us are trying to come from an area to create more jobs.

It seems as if the \$3.35 figure has priced many jobs out of existence. We heard testimony from small business groups where they determined it is no longer feasible to have the grocery boy sacking groceries or somebody wiping your windshield when you

fill up your car, that is the small, incidental type jobs that many of us had as our first jobs when we were growing up. I worked for a subminimum wage or less than a minimum wage for a period of time. But a lot of those jobs have now disappeared, as the Fair Labor Standards Act has been expanded and broadened.

I think I share your concern that we want to create more jobs; it is just how we go about doing it. I see that young people do not really have a representative. Labor is not representing them; business is not really coming forward. Some business groups have, but a lot of business groups have not because they do not pay minimum wage; it does not affect them.

The young people who are unemployed are the ones that do not seem to have a representative. What we are doing right now is not working. As Senator Percy testified, and I agree with him wholeheartedly, some of the ideas Congress has suggested, whether they be incentives, the Government picking up the difference or the educational programs, are not working.

Do you have any alternative ideas which we could use to get more of our young people back to work?

Mr. KIRKLAND. Sir, we believe that the problem is a function of the general state of the economy. We do not believe and we do not share what you suggest, that the minimum wage has caused any increase in unemployment; we believe the contrary. We believe that the appropriate response to youth unemployment and adult unemployment is to pursue measures that would expand the economy and create job opportunities.

We have put forward from time to time, in a variety of forums, programs to pursue to achieve that objective. I do not believe, sir, that the proposals that are at issue before this subcommittee will create any jobs.

Senator NICKLES. One additional question. I read your testimony where you mentioned your concern about the unemployed teenager displacing someone who has been in the job market. Do you think that many teenagers, for example 16- or 17-year-olds with little job experience, would replace any of the members of your organization from a job? Do you think we are really going to be knocking people out of jobs with 16- or 17-year-olds?

Mr. KIRKLAND. Well, sir, I am not expressing a concern solely for members of our organization. We are expressing a concern as an organization that is concerned with the general interests of working people in this country, and we are asserting that view. We are convinced that there would be a displacement effect, on grounds of simple commonsense, on grounds of interests on the part of employers, and on some suggested material from studies.

Senator NICKLES. Thank you.

Mr. KIRKLAND. Now, there is a commission in place that is supposed to be examining that aspect of the problem, as well as others. I have a paper by an analyst from the Congressional Research Service dealing with the targeted jobs tax credit program.

Senator NICKLES. And I appreciate your—

Mr. KIRKLAND. Although the evidence is not in completely and the studies are not complete, the evidence suggests that windfalls and substitutions in the program may be substantial.

Senator NICKLES. I might ask you one other question, because in your statement you did refer to the study of the program. You are talking about the study which will be released in June, 1981.

Mr. KIRKLAND. Yes, sir.

Senator NICKLES. It mentioned every indication that youth unemployment has not been reduced by the tax credit nor could unemployment be reduced by a subminimum wage. Did you participate in that study?

Mr. KIRKLAND. Did I participate in it?

Senator NICKLES. Yes.

Mr. KIRKLAND. No, sir.

Senator NICKLES. I was just wondering. The study has yet to be released but we hear rumors about it. I did not know if you were involved in it.

Senator WILLIAMS.

Senator WILLIAMS. Thank you, Mr. Chairman.

Mr. Kirkland, thank you for your full statement; it would have been nice to hear you state it personally, but we will read it. I read it late last night, and I think I will go back and read it again.

Mr. KIRKLAND. I do not think it will contain any surprises to you, sir.

Senator WILLIAMS. No, but there is a lot of information that is necessary for all of us, and maybe in our questioning, some of those aspects of your statement will appear.

Certainly, we hear a great deal from those who propose a subminimum for youth that it is their feeling that this will be a motivation for the creation of new jobs. I just wonder whether, in our economic history, there has ever been a time when lowering wages has stimulated the economy and brought new opportunities.

Mr. KIRKLAND. Well, if that theory were true, sir, in the depths of the Depression when there was no minimum wage we should have had no unemployment. [Laughter.]

There was no minimum wage until the midthirties, so why did we have all this unemployment if unemployment responds to reductions in wage? In fact, sir, it has always been my understanding—I may be primitive on economic theory, and I admit it—but I believe that economic theory, no matter which side of the fence one may be on, is based on real values in real terms, and not on money terms.

In fact, the real value of the minimum wage is going down. Theoretically, if there were a direct cause and effect rule involved, unemployment should be going down with it, but it is not. I do not believe that cutting wages in any way increases employment opportunities, whether you call it a subminimum wage or any other wage reduction scheme.

Senator WILLIAMS. We have responded to the need to create youth and disadvantaged employment opportunities through a variety of existing programs. We have done it with the student certificate program; we have done it with a tax credit for targeted groups, including young, poor kids, and we have done it with employment and training programs. You dealt with that in your statement.

Mr. KIRKLAND. Yes.

Senator WILLIAMS. What is the broad conclusion in terms of impact and effect of those programs, tax and otherwise, that are now in place, directed at the disadvantaged young people who are unemployed?

Mr. KIRKLAND. In my view, sir, and in my experience I am convinced that the programs that worked are those that were based upon training for job opportunities, where those opportunities exist, together with placement and outreach. We have been engaged in the development and operation of a considerable number of those programs.

We did have, until currently or in the near future, as one of the activities sponsored by the AFL-CIO a human resources development institute which was organized and put in place and supervises a considerable number of job training programs and job placement programs directed specifically at youth, particularly disadvantaged youth. In our view, they have been quite successful. They are closely linked to the ultimate aim of placement of people who have had many disadvantages in their backgrounds, educational or otherwise, overcome through the training programs and because they are being helped in the area of placement. That, sir, together with a broad economic program or broad program seeking the expansion of job opportunities at large in this country, as well as meeting the country's essential needs, is the path to resolving this problem.

Senator WILLIAMS. Thank you. One of the efforts that has proven just what you say is the Job Corps program.

Mr. KIRKLAND. That is correct, sir.

Senator WILLIAMS. One of its strongest advocates will be the next person to question you, Senator Hatch.

Senator HATCH. I am glad we agree on that. [Laughter.]

Mr. Kirkland, although you and I do differ on this particular issue of the youth opportunity wage, I think there is at least one point upon which you and I agree, and that is the value of real-life experience as opposed to intellectual abstraction, theoretical models or ideological beliefs—literally, I know that you and your colleagues in the American labor movement are eminently practical men and women, and I respect that.

Unlike the bureaucrats in Washington, I think that your members are severely affected by inflation, by a sluggish economic activity in this country, and the severe depressions that occur in some geographical or economic areas. I also know that even in the labor movement, you are experimenting with cutting wages, which is almost forced wage cutting as a result of, in many respects, unfair international competition of foreign government-subsidized material, equipment, and manufactured items coming into this country. You and I are not too far apart in those areas.

I think you have to agree, too, that our young people are suffering, today, unprecedented unemployment, especially the minority kids in this country. The thing I am worried about is that we have had a lot of Federal youth job programs, and I think that the statistics show in most cases that they have not worked as well as we would like them to work.

I happen to support, as my dear friend from New Jersey indicated, the Job Corps program because I think it is one of the few

programs that gives these structurally-unemployed kids an opportunity to learn skills that they would never otherwise have the opportunity to learn. We fought to maintain that program intact, even though we probably have over-funded it, because they cannot spend all the money they have now due to a lack of cooperation in some areas of the business community.

But the President once stated:

The country needs, and unless I mistake its temper, the country demands bold, persistent experimentation. It is commonsense to take a method and try it. If it fails, admit it frankly and try another. But, above all, try something.

Mr. Kirkland, as you know, that statement was made by Franklin Delano Roosevelt during the depths of the Depression.

I have basically two questions. One is, is it not time to try some of these new ideas and see how they work? To see if a youth differential really displaces older workers, if it really causes a disruption in the work place, and if it really does not expand businesses to create more jobs? Is it not worth a try?

The second question, which is related is, if you cannot tolerate this type of an approach—and you have indicated that you cannot, and I respect your viewpoint—then what approach would you have other than more and more Federal Government jobs, or is that the only approach you can come up with?

Mr. KIRKLAND. Well, on your first question, Senator Hatch, I am all for experimentation where reason tells me that there might be an opportunity of progress flowing from it. My reason convinces me that the experimentation in this direction will be destructive and negative, and that leads me to our position of opposition to it. I think that is based on some life experience as well as history and the results of specific programs that have had that net effect of making available to employers very cheap labor. In other words, if I think something is a plague, I certainly do not want to experiment with it.

On the question of alternatives, I think we have put forward alternatives. In the first place, I think that the specific, concrete, targeted approach is preferable to experimentation with theoretical abstractions of this kind; by that, I mean job training programs connected with job placement programs in avenues that have a future, not in marginal or transitory employment.

In turn, the extent in the future to which training opens up for young people depends heavily upon the state of the economy and whether or not our basic industrial base of this country is expanding or declining. Unfortunately, currently it is declining; I think that holds the seeds of future disaster.

We have put forward programs that would, in our view, warrant a strong commitment in the direction of the industrial revival of this country in the private sector. We have also advocated a good number of measures that are aimed at reviving and restoring the economic and social infrastructure of this country in terms of urban services and facilities. We continue to believe that that is the path we ought to follow.

I believe that we have today, for example, a tremendous shortfall in the housing field in terms of housing construction—a great area for providing expanding opportunities for young people, if we had a healthy construction industry. But we are building just over 1

million houses and we need 2 million houses a year to stay even. And the major element or force in our society that is destroying the housing industry and that area of opportunity for young people, and one that opens the door to good pay and personal enrichment, reward and satisfaction, is exorbitant interest rates.

If I were to name one problem that ought to be overcome that would open the doors and expand jobs and open the doors the opportunity, it would be policies directed to turn around these exorbitant interest rates that have, I think, contributed more to economic stagnation of the young and adults than any other single factor.

Senator HATCH. All I can say is that we differ on the matter. I could ask a lot more questions, but maybe I can submit some in writing to you.

The thing that haunts me is the young black boy who came to me; he was, I think, 16 years of age. He just begged me and he said, "Senator"—he caught me in the hall and he just said, "Give me a job." He said, "I do not care what you pay me or whether you pay me at all; just give me a job and train me and then I will make the minimum wage or better." He said, "My problem is that I cannot even get a job."

Mr. KIRKLAND. I agree with that, sir. The people in this country want to work; the people who are unemployed want to work and they want jobs. It is commonplace nowadays to see stories and pictures of some company offering 10 or 15 jobs and 5,000 people lining up for those jobs. The jobs are not there.

Senator HATCH. Let me just say this: I want to compliment the AFL-CIO, the UAW, and other unions that are cooperating with the Job Corps program and providing training within that program. As you know, we have a model program in Utah, where we have a large number of enrolled young people and an excellent placement record of young people into responsible jobs, with all the self-esteem that comes from working.

We have noted with a great deal of interest and appreciation the efforts that the union movement has put forward to train young people.

Mr. KIRKLAND. We are deeply concerned, sir, about what the future holds in that area. We have our people working in our human resources development institute operating on a month-to-month basis.

Senator HATCH. We appreciate that.

Mr. KIRKLAND. We have to tell them that we cannot expect that they are going to be able to function very much longer.

Senator HATCH. I might mention one other thing with regard to youth employment. It bothers me that recent economic surveys have shown that a 10-percent increase in the minimum wage results in a 1.2-percent decrease in youth employment. I think there are union leaders who will admit that increases in the minimum wage result in more youth unemployment. It is something that concerns this committee a great deal, and I suppose it should concern us all.

Senator NICKLES. Thank you, Senator Hatch.

Senator Kennedy.

Senator KENNEDY. Thank you very much, Mr. Chairman.

I do want to join my colleagues in welcoming Lane Kirkland to our committee to address this issue. I think it is important to realize, as Mr. Kirkland points out, that the question about how to deal with the problems of youth unemployment is not really a new one. I have heard Mr. Kirkland speak about this on a number of occasions, and the AFL-CIO has taken positions on this in support of programs which have been developed by this committee over a period of years.

I think all of us are concerned, obviously, that we have not made all the progress we would like to make in dealing with what is an extraordinarily complicated and difficult issue.

I think it is also important to recognize, as Secretary Donovan mentioned yesterday, that there really is no easy, simple answer to it. There are those that have suggested or thought that if we eliminated all the training programs to provide skills to young people and the supplemental educational opportunities to young people, and then provided a subminimum, we had solved the problem. There are those that think that because we have not answered all of the problems in terms of youth unemployment in the past with the programs that have been developed, we ought to just move on out into this area.

Of course, I am interested in that theory because sometimes, those that make suggestions or recommendations have been those that have been complaining about social experimentation over the period of the past.

Here, we have seen, at least within the administration, dramatic reductions in the support programs for providing both training and skills to young people and in the supplemental education program. There has been resistance, by some of our colleagues here—Senator Quayle and others—in accepting a total abandonment of that kind of an approach.

We heard from Secretary Donovan yesterday and I had urged him to go out and visit some of the training programs—those programs that have been working closely with some of your affiliates and have been working with the private sector, and have resulted in job creation and the possibility of career development in employment. Those are, I think, more hopeful avenues toward meeting this problem.

I think all of us are obviously impressed, in looking at any chart over the period of the last 10 years, that we see there is quite a disparity in the different categories of youth unemployment. Certain groups have been able to make some meaningful progress in terms of finding jobs, in spite of the fact that the minimum wage has been going up. Even so, as you pointed out, the minimum wage has still not kept pace with the rate of inflation.

So, I think it is interesting that we have seen the creation of some 13 million jobs since 1973, even though the minimum wage has been increasing. There have been very significant increases but we also know that we are still facing some very significant problems with unemployment in a number of different industries and some serious structural unemployment problems which demand the kind of economic revitalization that you commented on briefly today and have spoken on at greater length at other times.

What I would be interested in hearing is whether you have taken a look, or whether your associates have taken a look at the subminimum wage in other countries and what impact that has had. A number of other countries have developed a subminimum. Can you tell us what the impact has been in terms of unemployment among those young people, and generally what the impact has been on the employment situation?

Mr. KIRKLAND. Senator, I cannot claim to be an expert on the details of circumstances in other countries. I know in a general way that there are in European and other countries variations on minimum wage laws that, in some cases, involve subminimums, as, in fact, in this country we do have laws that involve subminimums now.

Senator KENNEDY. Before leaving that point, would you talk about the present student exemptions? Do you have any reaction to what have been the implications of that program?

Mr. KIRKLAND. Well, I just have a curbstone opinion, Senator, that the primary effect of it has been to cut the wages of the students, with no perceptible effect on employment opportunities.

In terms of other countries, I get exposed to this question or involved in it, and have been more and more lately because it has become a central issue in virtually every meeting with ourselves and our colleagues in Europe and in other parts of the world. It has been discussed at great length in the Trade Union Advisory Committee to the OECD.

The problem of youth unemployment is one that we share with practically every industrial nation, leaving aside the developing nations where unemployment is at such enormous levels that it is rather pointless to differentiate. England, France, Germany—they are plagued with the problem of substantial youth unemployment. It is getting worse, and there is no belief and no indication whatever that experimentation or the use of subminimum wages has had any effect on that whatever.

Senator KENNEDY. I think it would be instructive for us to know more about the experience in some of these other industrial countries, because of the scarce information we have in general on this issue.

Mr. KIRKLAND. I believe there has been some OECD work done on this.

Senator KENNEDY. It is my understanding that most of these industrial societies that have the subminimum still follow a very similar kind of pattern to what we have seen in the United States, and that unemployment in terms of youth is basically double what it is in terms of the employment level for others.

Mr. KIRKLAND. That is correct.

Senator KENNEDY. There are particular problems facing special groups in the society as well, and that has been true in most of the industrial countries of Europe, and I believe is equally true in Canada.

Let me ask you this: If this legislation moves along, would it be your sense, in terms of equity or justice, that this committee ought to consider that we are virtually behind the times in terms of the minimum wage and that we would have to see an increase in the minimum wage?

Would it be your sense and feeling that there should be upward adjustments on the minimum wage if it was the decision of the committee to move ahead on the subminimum, particularly with the reductions in other support programs which are targeted to try to help and assist individuals who are, in fact, getting a very minimum subsistence even with the minimum wage?

Mr. KIRKLAND. That is correct, Senator. I will make a couple of points and then I would refer to the concluding section of the statement that I submitted to the committee.

We are convinced that these proposals for a subminimum wage, in effect, represent an attack upon the minimum wage, per se, on one particular front. Every argument that is made for the subminimum wage can apply with equal force to the minimum wage. We do not believe that those arguments have any validity.

We are convinced that there is, in a humane society, a wage level below which one defines exploitation to exist and the abuse of people by other people in positions of superior power. We believe that it is in the interests of our society as a whole to safeguard against that. That implies that the minimum or that basic level ought to be maintained; the real value of it ought to be maintained.

We have just had the last increase resulting from the legislation of a few years back. We argued at the time that that legislation was being considered for indexing so that it could continue to maintain the same value in real terms, prospectively.

The fact is that the minimum wage today, day by day, is being eroded and is being cut by inflation. I would just like to, if I may, read again the points I make at the end of our statement.

We ask that you examine the real value or purchasing power of the present minimum of \$3.35 an hour. In 1967, the minimum wage was \$1.40 an hour. The current minimum wage, in 1967 dollars, was worth only \$1.27 in January of 1981.

We suggest that Congress note that continued inflation has seriously eroded the minimum wage and that Congress should direct its attention to increasing the minimum wage and indexing it in the future to insure that the 5 million minimum-wage workers would not become dependent upon supplemental Government support such as food stamps and welfare.

It is our view that the minimum wage must bear a relationship to wages generally if it is to be a meaningful wage floor.

Senator KENNEDY. Thank you; my time is up.

Senator NICKLES. Thank you, Senator Kennedy.

Senator QUAYLE. We might advise the members that we are operating under a 10-minute rule.

Senator QUAYLE. Thank you, Mr. Chairman.

Being a new member of the Labor and Human Resources Committee, Mr. Kirkland, it is my pleasure to welcome you for the first time. I have not had the opportunity to get too acquainted with you, but I hope to in the future because though there may be times when we disagree, I think we both, and all of us on this committee, share a concern for the issues that are before us. The issue today happens to be youth. As Senator Kennedy pointed out, there are some other areas of importance besides the youth minimum wage or the youth opportunity wage, or whatever you want to call it, and

youth training. This is not before this committee, but it is before another committee and it will be before the full committee.

I would just like to say that whatever side of the issue one comes down on on this subminimum wage, at least from my perspective, anybody who suggests that this, by itself, is a panacea to solving the youth unemployment problem is simply mistaken; that there is a lot more to the problem of youth unemployment than the youth opportunity and the subminimum wage.

I happen to be personally intrigued by the concept. There is very minimal data available to us on whether this thing works or does not work. I think Chairman Hatch was quoting FDR, which is now a favorite pasttime of all of us Republicans.

Senator KENNEDY. Well, it got a lot of them elected. [Laughter.]

Senator QUAYLE. It certainly got one of them elected, which is very important.

Senator KENNEDY. We have not heard much of him since. [Laughter.]

Senator QUAYLE. Are you talking about FDR? I am trying to bring him back here today; that is what I want to talk about. [Laughter.]

He just said, quoting FDR and Ronald Reagan, that we are just trying to do something. Whatever we try to do in this approach, we are trying to do something, and although we may disagree from time to time, we certainly should not get away from the ultimate goal, and that is to help out the youth and the disadvantaged in this country.

I would like to get back to your concluding statement that you responded to Senator Kennedy with, where you said:

We suggest that the Congress note that the continued inflation has seriously eroded the minimum wage and that Congress should direct its attention to increasing the minimum wage and indexing it.

Will something be coming forward from the AFL-CIO in a formal recommendation on how far we should increase the minimum wage next year, since this is the last year for increases? I think the Congress, 3 years ago, passed a 3-year package that does expire. You were quite adamant in your statement on page 6 that in 1967, the minimum wage was \$1.40 an hour and the current minimum wage, in 1967 dollars, was worth only \$1.27 in January of 1981.

Will something be forthcoming from the AFL-CIO?

Mr. KIRKLAND. I believe that we can find it within our capacity, sir, to offer some reasonable suggestions. [Laughter.]

Senator QUAYLE. Well, these reasonable suggestions—will this be in an offensive or a defensive nature? By offensive, I mean that you would take it separately from the youth differential and say that the Congress ought to move forward on this. Or will it be more in a defensive posture, as Senator Kennedy somewhat suggested, that if the subminimum wage begins to advance, then there may be a thing called linkage?

We link everything today, whether it is foreign policy, domestic policy, or what not. There may be a linkage that, "Yes, we may go along," or at least the compromise would be that we would end up with a youth differential as long as the minimum wage was increased and indexed.

Mr. KIRKLAND. Sir, I would not trade a subminimum wage for a higher minimum wage, if that is your question. Our position that we will take on this will be wholly consistent with our position on the minimum wage over the years, and we will endeavor to maintain the real value of it, consistent with our position. We will continue to oppose any devices to cut the minimum wage for major sectors of our population, and we are prepared to address it on its merits.

Senator QUAYLE. I believe that former Secretary Marshall indicated that the increase in minimum wage does cause a loss of jobs. Is that true? Do you agree with that assessment or not?

Mr. KIRKLAND. I do not agree with any such assessment, and I do not think that that can be established.

Senator QUAYLE. In other words, you do not think that increasing the minimum wage would have any impact on the number of jobs available in this country?

Mr. KIRKLAND. I think I indicated before that I believe that even the most extreme adherent of marginal productivity economic theory would agree that it works only in real terms. Monetary equivalents are irrelevant; you have to look at the real effect in relation to the level of prices, et cetera.

In real terms, the minimum wage has declined; it has not increased. And if that pure marginal productivity theory were to work, in fact, in real life, that should have led to an increase in employment, and it has not. An increase in the minimum wage designed to maintain the real historical level, which we have not even achieved by the increases of recent years, will not even theoretically lead to an increase in unemployment, even if you adhere to a classical theory that I do not believe matches real life.

Another point: Even the advocates, so far as I understand them, of a subminimum wage concede that they are talking about jobs for youth in marginal, dead-end, usually transitory employment. I doubt if that offers much real hope for young people in this country or much real opportunity, in the full sense of that word, to young people in this country, particularly at a time when this move is being paralleled by a move to destroy and do away with programs which do raise the level of performance, capacity, training, and skills of young people, and which do place them in concrete jobs and do give them an opportunity for progress and growth in their future lives.

Senator QUAYLE. In other words, the bottom line is that you do not accept that argument at all?

Mr. KIRKLAND. I believe that is a fair conclusion, sir. [Laughter.]

Senator QUAYLE. Let me switch to one of the strongest arguments against the youth differential, and that is job substitution. I think you stated in here, did you not, or I read somewhere that you thought that 70 percent of the people on minimum wage were adults?

Mr. KIRKLAND. Yes, sir.

Senator QUAYLE. As a matter of fact, in your opening paragraph you say that we would be creating a new class of workers who will displace them, meaning, I presume, the adults.

The data is really vague and not conclusive; there really is not any data that shows that this would happen. I mean, we have the

wage subsidy that we have tried on a temporary basis, with the youth incentive and entitlement programs. We have the Targeted Jobs Tax Credit program that allows up to \$6,000 for the first year, which is a much greater incentive than 85 percent of the minimum wage would be. Yet, there is no evidence that shows that there has been any displacement.

If there was displacement, you would think that with these programs going on, the youth unemployment in this country would be going down. The reverse has happened; unemployment with youth has gotten worse.

So, can we conclude that there is going to be this displacement that we keep hearing about time and time again everytime someone mentions the words "youth differential?"

Mr. KIRKLAND. Well, sir, when all else fails, I would tend to rely on commonsense, and commonsense tells me it would have that effect. You are quite correct in that in terms of the profound work of economists based upon empirical research, the results are rather sketchy. But we do have this study which I think sums up the situation at present in terms of hard data; it is by John Fisk of the Economics Division of the Congressional Research Service. It is a study that was published last November, entitled "The Economic Rationale for the Targeted Jobs Tax Credit." I would just read you a paragraph from that:

Currently, no hard evidence is available on the effectiveness of the TJTC in reducing structural unemployment. A Department of Labor evaluation, which will be available in June 1981, may be the first good, detailed, empirical study on the effects of the TJTC. Although no detailed evaluations of the TJTC have been completed, there is some limited evidence on the effectiveness of the program. This evidence suggests that windfalls and substitution in the program may be substantial. If this evidence is accurate, modifications in the TJTC's targeted mechanism may be able to reduce the windfall. Nevertheless, because of the difficulties in identifying the structurally unemployed, reduction in windfalls will not be easily achieved.

I think that is the status of it.

Senator QUAYLE. In that statement, a reasonable man of commonsense would say that perhaps there is a displacement factor from that.

Mr. KIRKLAND. Yes, sir.

Senator QUAYLE. But, then, does that not just fly in the face of the fact that the unemployment situation for youth has gotten worse in the last couple of years, even with TJTC? I mean, it has not gotten better, has it? If they were making all these displacements, would not the unemployment situation with the youth get better?

Mr. KIRKLAND. I think the recent figures—and my Director of Research can probably respond to that more fully than I—indicate that in recent months, the growth of unemployment has been in sectors other than youth; that is, the greatest increases in unemployment.

Obviously, when we are in a period of economic stagnation or decline—and I think we have been for some years—when there is high unemployment or growing unemployment generally, those elements of the work force that are just beginning to go into the work force are going to suffer from the impact more than those who have tenure, have seniority, and have experience and skills with which to survive in this struggle of a declining market. I

think it is inevitable that that would exist in this kind of an economic environment.

We continue to believe that the best approach to it is to better equip young people with the capacity, skills and talents that they will need throughout their lives to compete in the job market. I believe the subminimum will have precisely the reverse effect, particularly, sir, at a time when we are in the process of dismantling the programs that do provide genuine opportunities and enhance the capacities of young people.

Senator NICKLES. Thank you, Senator.

Senator QUAYLE. I just have two questions that would necessitate a yes or no, if I could.

Do you support the Targeted Jobs Tax Credit program?

Mr. KIRKLAND. No. We accepted it, sir. I do not think we were wildly enthusiastic about it.

Senator QUAYLE. You have accepted it, but you do not endorse it?

Mr. KIRKLAND. No, sir.

Senator QUAYLE. What about the wage subsidy program?

Mr. KIRKLAND. The same would be true.

Senator QUAYLE. The same.

Senator NICKLES. Thank you, Senator Quayle.

Senator Riegle.

Senator RIEGLE. Thank you, Mr. Chairman.

Let me welcome our friends at the table. I happen to serve on four subcommittees, all of which are meeting at this very time, and on two of which I am the ranking Democrat—one downstairs on Alcoholism and Drug Abuse, where we are fighting to hold those programs together, and also over in the Commerce Committee on Science, Space, and Technology. So, I am trying to be several places at once here.

The best data I have seen indicates that about 70 percent of the people who are today working at the minimum wage are adults. So, the obvious question in my mind is that if we create a special subminimum wage, something lower than \$3.35 an hour for young people, it follows, I think, that many of the businesses that are caught with high interest rates and slack economy are going to lay off the adult workers at the minimum wage level and hire in their place younger workers at a lower wage level. They are almost forced to do that by the economic circumstances.

So, I think the chance for major displacement is real, especially in the kinds of economic conditions that we find ourselves in.

If you look in New York or Detroit or Chicago or Los Angeles or Miami, or other major urban centers, where we have literally millions of our unemployed young people, what is needed to fit that situation may be quite different from what would be effective, in other regions of the country. Circumstances are different.

To really get at this problem of unemployed youth, which is a dangerous and incredibly hurtful and wasteful situation, we have to look at it where it exists and what the realities are in those circumstances.

Now, I would submit that if you take the minimum wage for a 40-hour week, which is \$134 a week, from which comes social security taxes, Federal taxes, State taxes, and local taxes, your net salary is probably something closer to \$100 a week.

If you are in New York City or some other major city, you have transportation costs getting to and from work. You have clothing costs; you cannot go to work stark naked; you have to have clothes. You have food costs, housing costs, and utility bills. I know people in Michigan right now who are paying \$100 a week just for utilities in the dead of winter. And then there is medical and dental care.

If you are a family, if you have responsibility to support others in your family, to try to function today on that kind of take-home pay is really not very practical in some of the major areas of the country where the unemployment situation is the worst. Now, that is just a hard fact.

We ought not to kid ourselves, whether we are Republicans or Democrats, or well off or not so well off; we ought not to fool ourselves about what is possible, in dollars and cents terms, in today's economic situation. Inflation is out of control, and it obviously hurts people on the lowest rung of the economic ladder more than it hurts anybody else.

And to just come along and say, "Look, \$3.35 an hour is too much and we are going to shave that down to some other figure, like \$2.75 or \$2.50"—I do not know what somebody may have in mind—but to imagine that that can be a living wage on a 40-hour a week basis in our society today in areas such as I have mentioned, really stretches beyond the limits of what is feasible and what is practical.

Just add the numbers up; you can add them up in any of the major metropolitan areas of the country that you want to look at. That is missing from this debate. I say this in a friendly way to my colleagues on the other side of the aisle—it is one thing to have a theory that may seem attractive if you are not in power and you do not actually have to put the thing in effect and make it work.

The problem comes if, suddenly, you have power and you have to fit the theory to the realities and you find that it does not fit. I think that is what we see here. I think what we are already learning is that when you start to bear in on the real economic impact of the minimum wage, you find out today that the minimum wage in high-cost areas, particularly in the north where the winters are long and cold and the utility costs are high, is not a living wage; it is not a living wage.

Well, there are people who do not want to see that part of it; they would rather push that to the side and talk about other things.

We have some desperately serious problems, I think, in reaching and helping our young people come forward. One of the reasons we have so many unemployed youth in the United States is we are not spending enough on education, especially in urban ghettos where, if you cannot get the basic educational skills coming through school or cannot even remain in school because of economic circumstances, you are not going to be prepared for the kind of society that we have today.

So, there are other aspects of this problem that also have to be addressed. But one of the hard and painful facts of life is that if you look at the Reagan budget, in those areas help is being withdrawn systematically, program by program by program by program.

So, this problem, if this budget is taken exactly as it is, is going to get worse in terms of the unemployed youth in this country. A lot of people do not know that yet because we are still in the press agency aspect of the debate on this program. But the hard facts of life are that we are going to have more unemployed youth in this country if this budget is adopted exactly as it has been put forward. That is an inescapable reality. The sooner people figure that out and decide if that is what they want or not, the sooner we can get down to a serious debate on the hard, cold facts of life that are bearing in on people.

I would welcome your comments on that line of reasoning or any thoughts you would want to add to that.

Mr. KIRKLAND. Well, of course, I subscribe to everything that you say, Senator Riegle. As far as the budget is concerned, the program calls for the elimination of about half a million CETA jobs. A rather high proportion of those jobs are currently occupied by young people, and they will be thrown on the street.

If this committee were really concerned and assembled to consider the real role of the minimum wage in our society and our economy and the real problems that people face, we would be meeting here to argue about how high it should be raised this year and in the coming years, not about which group in that category of people who are suffering ought to have their wages cut.

Senator RIEGLE. Well, it seems to me that if we want to promote work—and I do and I know you do, and I think most Americans across the country want to promote work—if we want to promote work, then I think we have to be prepared to see that the wages that are paid constitute a living wage. You cannot promote people getting into the work system if what you earn as a minimum is not sufficient to enable you to function in today's society.

I have not heard anybody yet come forward and show on a budgeted basis, in a Chicago, in a New York City, in a Los Angeles, in a Miami, how you provide for the basic elements of life at the minimum wage, let alone a subminimum wage.

I think we are off on a side road here, and I just hope we can wake up soon so that we can get back to the basic task of getting the country fully employed.

My time is up here.

Senator NICKLES. Thank you, Senator Riegle; we appreciate your comments.

Mr. Kirkland, Mr. Dennison, Mr. Oswald, we appreciate your interest and your testimony in this matter. Your testimony will be entered into the record and we appreciate your endurance for the long session of questions. You have provided a very interesting viewpoint and we thank you for that.

Mr. KIRKLAND. Thank you, Mr. Chairman.

Senator NICKLES. Thank you. We look forward to working with you in the days and years to come too.

[The prepared statement of Mr. Kirkland follows:]

STATEMENT OF LANE KIRKLAND, PRESIDENT, AMERICAN
FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS,
BEFORE THE LABOR SUBCOMMITTEE OF THE SENATE
COMMITTEE ON LABOR AND HUMAN RESOURCES ON LEGISLATION TO
ESTABLISH A SUB-MINIMUM WAGE

March 25, 1981

Mr. Chairman, I appreciate this opportunity to present the views of the AFL-CIO on amending the Fair Labor Standards Act to provide for a youth minimum wage differential. I note that the bill titles all purport to offer "Youth Opportunity." I do not believe that most teenagers would view a subminimum wage as an "opportunity" wage. Nor do I believe that teenagers currently employed at or above the minimum wage, or adult workers, who are paid relatively low wages, would accept the creation of a new class of workers who will displace them at 75% or 85% of the minimum wage.

The AFL-CIO is opposed to a subminimum wage for a number of reasons. We believe that the minimum wage represents a floor under wages and that no worker, whether young or old, black or white, should be asked to work for less than the wage floor. We are concerned with the high level of teenage unemployment. But we are equally concerned with the fact that there were 7.8 million unemployed in February 1981 and that 6 million of them were 20 years of age or older. We recognize that the economy is generating too few jobs for the old as well as the young. The answer to this problem is the creation of more jobs, not a "super low wage" pool of exploitable young workers for the

same businesses that are being granted tax breaks.

Those who seek a lower wage floor for teenagers must accept the fact that a two-tier minimum wage would create higher unemployment among older workers. They are opting for equalizing the rates of unemployment in the various groups rather than eliminating the cause of high unemployment. They are fostering discrimination on the basis of age, encouraging school drop-out and creating tensions in the work place.

There is so much talk today about what the public wants and expects from the new Administration that you may be interested in the findings in a recent Gallup Poll (February 1981) dealing with the subminimum wage issue. Among the key findings in this poll was that the views of those respondents who were familiar with the proposal for a youth subminimum were almost equally divided for and against the proposal. However opposition to such a wage was greatest among those groups which would be directly affected by the subminimum -- namely, teenagers and younger adults, blacks and those with less formal education. For example, of those expressing views on the subminimum wage, almost 60 percent of the youths aged 18 to 24 (the lowest age grouping shown in the survey) were opposed and about 70 percent of the blacks were opposed.

So, if you view this bill as creating opportunities for youths, particularly black youths, it should be of some concern that these groups are opposed to the bill and that they do not view low wages as affording them acceptable "opportunities" for employment.

Furthermore, I am convinced that a poll limited to "minimum-wage" workers or to teenagers would show even stronger opposition to the creation of a youth subminimum. Currently adults account for 70 percent of all minimum wage workers, while teenagers account for 30 percent of those currently paid the minimum wage. The subminimum wage would mean displacements in the older group and a choice between a cut in pay or displacement in the employed teenage group.

Mr. Chairman, a subminimum wage for youth is not a new issue. We opposed it in 1971 and in 1977. We were convinced then and we are even more convinced today that a subminimum wage would legislate discrimination in employment on the basis of age and would not solve our unemployment problems.

The push for a subminimum in the 70's reflected recognition that there was an explosion in the youth population in that decade and that many more jobs would be required. For example, there were 7.2 million teenagers aged 16-19 in 1970. By 1977, the number had increased 28 percent to 9.3 million. Government projections indicate a 7 percent decline in 1985 and an additional 3 percent drop in 1990. If the Congress didn't look favorably at a subminimum when the baby boom was reaching its peak, now that the teenage labor supply is shrinking, there is even less reason for consideration of such a proposal.

The issue of youth employment, Mr. Chairman, is a major consideration in our work force. It is not the isolated "mom and pop" establishment that we discuss here today, instead it is the fast food and retail industries that employ more workers than does the entire U.S. steel industry.

Mr. Chairman, the Fair Labor Standards Act currently provides for payment of less than the minimum wage for seven categories including full-time students, handicapped workers, and student learners. The Department of Labor has issued 42,000 certificates authorizing the employment of almost 700,000 workers at less than the minimum wage, as of September 1980. Full-time students account for about 500,000 of the 700,000 workers authorized to be employed at less than the minimum wage. Half of the full-time students are employed in retail stores and restaurants.

The AFL-CIO worked with the Congress in the 60's and 70's in relaxing the requirements for employment of full-time students. A review of the status of full-time students under the Fair Labor Standards Act appears in the Appendix to this statement.

In addition, employers can claim tax credits for certain employees. Under the Targeted Jobs Tax Credit Program (TJTC), there are seven categories of employees for whom employers can claim tax credits when they file their income tax returns. Youths in work-study programs and economically disadvantaged youth make up the majority of the population eligible for TJTC. The credit in the first year amounts to 50 percent of the first \$6,000 of the employee's wages or a subsidy to the employer of \$1.50 an hour. In the second year, the credit is 25 percent of the first \$6,000.

According to the Congressional Research Service of the Library of Congress which has been studying the effectiveness of the program, the evidence suggests that windfalls and job substitutions in the program have been substantial. In June 1981, the Department of Labor is scheduled to release an empirical study on the effectiveness

of the program in reducing structural unemployment. There is every indication that youth unemployment has not been reduced by the TJTC and that it won't be helped by a subminimum wage of \$2.50 or \$2.85.

Mr. Chairman, in the course of the debate of the 1977 Amendments to the Fair Labor Standards Act, the Congress decided that various questions raised in connection with this legislation required an objective outside analysis and created the Minimum Wage Study Commission. The Commission was mandated to study 12 issues involving the Fair Labor Standards Act. One of these involved determining the employment and unemployment effects (if any) of providing a different minimum wage rate for youth.

The Commission is scheduled to complete its work in April of this year and to issue a final report in May. The Commission has already heard a number of academics (who under the ground rules are not cited prior to the issuance of the report) describe their findings with respect to the minimum wage and unemployment at meetings open to the general public. Although the studies vary greatly in approach, all address the issue of substituting teenagers for older workers. These studies show that a subminimum wage would generate few if any additional jobs and that displacement of presently employed workers will occur. This confirms earlier studies by Professor Alan A. Fisher in 1975 and Professor Edward M. Gramlich who testified before the Congress in 1977. Professor Gramlich actually stated that he preferred not to go on record as to who should get the jobs -- adult men and women or teenagers.

Mr. Chairman, it is our view that a teenage subminimum would not have the positive effects on teenage employment which concerned proponents envisage. Instead it would create new tensions in the work force. Teenagers would resent being paid less for doing the same work as older workers. Older workers would consider the creation of a new class of subminimum wage workers as job-threatening and unfair competition.

Furthermore, we cannot see how the provision in this bill for a 180 day limitation on the payment of a subminimum wage could be monitored. Instead we foresee a revolving door where teenagers work at a lower minimum until they are displaced by a new-younger group of workers. We see no way in which the Secretary of Labor can "discover" violations of this provision which requires no certification for teenage employment and little likelihood that penalties for violations would be imposed.

Mr. Chairman, we urge that you not legislate job discrimination on the basis of age -- or any other personal characteristic. Work must be paid for as work and not on the basis of who is performing the work.

We ask that you examine the real value or purchasing power of the present minimum of \$3.35 an hour. In 1967, the minimum wage was \$1.40 an hour. The current minimum wage in 1967 dollars, was worth only \$1.27 in January 1981.

We suggest that Congress note that continued inflation has seriously eroded the minimum wage and the Congress should direct its attention to increasing the minimum wage and indexing it in the future to ensure that the 5 million minimum wage workers would not become dependent upon supplemental government support,

such as food stamps and welfare. It is our view that the minimum wage must bear a relationship to wages generally if it is to be a meaningful wage floor. (Attached are the statements on the Fair Labor Standards Act and the Teen-Wage Fiction issued by the Executive Council of the AFL-CIO in February 1981.)

APPENDIXLegislative History of Full-Time Students Under the Fair Labor Standards Act

From 1938 to 1961 there was no special provision in the Fair Labor Standards Act relating to the employment of full-time students at subminimum rates. (Note: There were and there continue to be special provisions for employing learners, apprentices, student learners and student workers at subminimum rates.)

The 1961 Amendments to the Act revised Section 14 of the Act to permit the employment of students at 85 percent of the minimum wage in retail and service establishments. The purpose of this provision was described in House Report No. 75 (87th Congress, 1st Session, March 13, 1961) as follows:

"To provide employment opportunities for students who desire to work part-time outside of their school hours without displacement of adult workers."

In general, the maximum number of hours that could be paid for at subminimum rates was limited by past practice in employing students. An upper limit of 10 percent of all hours was established. An upper age limit of 18 was also established by the Labor Department regulations.

The 1966 Amendments to the Act revised Section 14 with respect to full-time student employment in the retail and service industries and added a provision authorizing the employment of students in agriculture at subminimum rates.

The regulations for the hiring of students were relaxed so as to permit the issuance of student certificates to "students regardless of age (but in compliance with child labor laws)."

The 10 percent limitation on full-time student hours at subminimum wages was eliminated after the 1966 amendments. As a result, there are certificates, issued by the Department of Labor, which authorize the employment of full-time students at subminimum rates for as many as 50 percent of all hours worked in some restaurants. In variety stores, authorizations

of 35 percent student hours are not uncommon.

The 1974 Amendments expanded the full-student certification program to include institutions of higher education. In addition, a special exemption was authorized for elementary and secondary education in-house, work-study programs. The procedures for obtaining certificates authorizing the employment of students at 85 percent of the minimum were streamlined:

- - Institutions of higher education need not obtain certificates prior to the employment of students unless they are found to violate the law or the Secretary's regulations.
- - Retail or service establishments or agricultural employers may employ four or fewer students without complying with the precertification procedure.
- - The provisions of prior law limiting the number of hours for which a retail or service establishment or agricultural employer might employ students at a subminimum wage to the proportion of student hours to the total hours that existed in such employer's establishment prior to 1961 or 1966 are changed to offer the employer three options:

The employer may employ students at a subminimum wage rate for hours not to exceed (a) the proportion of student hours to total hours of employment in the preceding year, (b) the maximum proportion to which the establishment was ever entitled under prior law, or (c) a proportion equal to 1/10 of the establishment's total hours of employment, whichever is greater.

Statement by the AFL-CIO Executive Council

on

Fair Labor Standards ActFebruary 16, 1981
Bal Harbour, Fla.

Continued inflation has wiped out the purchasing power provided minimum wage workers by the 1977 amendments to the Fair Labor Standards Act.

The current minimum wage of \$3.35 an hour, which went into effect on January 1, 1981, as the fourth and final step of the 1977 increases, was outdated by inflation before it reached the workers' paychecks. A minimum wage of \$3.72 an hour would have been required in December 1980 in order to yield the same purchasing power as the \$1.40 an hour minimum wage had in 1967.

Today's minimum wage is continuing to fall in purchasing power and threatens its five million recipients with becoming more dependent upon supplemental government support, such as food stamps and welfare assistance. The historic role of the federal minimum wage has been to set a floor under the level of wages an employer must pay so that he is not subsidized by tax-supported federal aid and community programs.

If Congress had accepted the 1977 proposals to index the minimum wage to average hourly earnings in manufacturing, minimum wage workers would be keeping pace with all other workers. The 1967 minimum wage of \$1.40 an hour equaled 50 percent of gross average hourly earnings in manufacturing; the \$3.35 minimum wage only equals about 43 percent of that standard. The erosion of the buying power of the minimum wage makes a strong case for indexing it for the future.

A two-tier minimum wage or a subminimum wage for youth would encourage employers to fire older minimum wage workers with family obligations in order

Fair Labor Standards Act

-2-

to hire younger workers at less pay. Minimum wage workers desperately need increased buying power to support themselves and their families; not a revolving door to the unemployment line.

While the teenage unemployment rate is disastrously high and demands effective programs to provide jobs for younger workers, we adamantly reject the contention that those jobs must come at the expense of older workers. Four of every five unemployed workers are not teenagers, yet older workers would be shoved to the end of the line of jobseekers so that employers could pay a lower wage to teenagers.

Seventy percent of the workers who are paid the minimum wage are adults, and two-thirds of them are women, many of whom are heads of households. Clearly, their jobs would be jeopardized by a subminimum wage for teenagers.

The creation of age discrimination within the minimum wage structure could lead to further erosion of the wage floor based on race or sex with the specious justification that their higher unemployment rates require discriminatory wages. The federal government must not promote wage discrimination on any grounds, for any purpose.

Therefore, the AFL-CIO will:

1. Urge Congress to index the minimum wage.
2. Oppose any attempts to legislate a two-tier wage structure that discriminates on the basis of age or any other factor.
3. Seek adequate funding for aggressive enforcement of wage and hour laws.

Fact Sheet for the AFL-CIO Executive Council

on

Teen-wage Fiction

Although inflation has already seriously undermined the purchasing power of minimum wage workers, conservatives are urging the adoption of a two-tier wage floor that would reduce the present minimum paid to workers under 20 years old by 25 percent: from \$3.35 to \$2.50 per hour.

Advocates also claim a subminimum wage would enable employers to "train" younger workers. How much training is required to turn a hamburger? The minimum wage is for untrained, unskilled workers; 95 percent of American workers earn more than the minimum wage.

The true goal of the advocates of a subminimum wage is lower wages, not reduction in unemployment. Nor are the true beneficiaries so-called Mom and Pop stores. McDonalds, for example, is now a larger employer than U.S. Steel.

Employers already get substantial tax breaks for hiring certain youths, including the economically disadvantaged and those in work-study programs. Under the Targeted Jobs Tax Credit program, the employer's tax credit amounts to half of the first \$6,000 of the employee's wages in the first year and 25 percent in the second year.

Such programs have created few, if any, new jobs. A study by Ohio State University shows that at least 80 percent of the certifications issued under TJTC programs have been retroactive, claimed for workers already on the payroll. Thus, few new jobs were created. And the Congressional Research Service reported widespread substitutions of youths for already-employed older workers.

Further, the law already provides opportunities for students and others at special wage rates, under special protected conditions.

Present law permits payment of less than the minimum wage to no fewer than seven categories of workers, including students, handicapped workers and student learners. Of the 700,000 workers certified for employment at less than the minimum wage, 500,000 are students, half of them employed in retail stores and restaurants.

Advocates of a youth subminimum wage frequently point to the high unemployment rate among minority youth as justification for providing a lower minimum wage. While the AFL-CIO has long urged youth employment programs targeted to the needs of minority youth, we reject as superficial the claim that a subminimum wage would significantly reduce their unemployment rate.

A subminimum wage would not solve the problems of discrimination in employment that obviously contribute to the 36.1 percent unemployment rate among black youth, more than double the rate for white teenagers. Discrimination can never be solved through more discrimination. Further, minority youth lack the access to transportation to job opportunities in the suburbs -- another major factor in their higher unemployment rate ignored by the backers of a subminimum wage. The real problem facing black teenagers is a lack of jobs in inner cities -- not wage levels.

A two-tier proposal would authorize across-the-board discrimination against all workers under 20, family breadwinners as well as students.

While a youth subminimum would have negligible effects in terms of job creation, it would bring about widespread job displacement.

Employers eager to hire teenage workers at bargain basement wage rates would be no less eager to replace them with others when they reached the magic age of 20 that would entitle them to a 25 percent increase to the minimum wage.

Although economists disagree about the extent of job displacement that would take place, they are unanimous in the view that teenagers employed at less than the minimum wage would be substituted for older minimum wage workers.

Of those earning the minimum, a full 70 percent are adults, many are heads of families and two-thirds of the adults are women.

Among those now unemployed, only a fifth are under 20. Eight out of ten are older, experienced workers.

A two-tier minimum wage would set them in competition with younger, "cheaper" workers and would further reduce the chances of these older workers for finding and keeping a job that would be disastrous as a social policy.

Paying less than a decent wage would do nothing to strengthen the economy. Decreased earnings mean decreased purchasing power, which translates into less demand in the marketplace, lower production and fewer jobs.

For the teenagers themselves, the injustice of being paid less than their older fellow workers doing the same jobs would be a source of resentment, to say nothing of the discouraging prospect of again being unemployed at age 20.

For all American workers and all citizens, the most dangerous aspect of the two-tier minimum wage scheme is that it rests on an injustice that can only breed more injustice.

If a subminimum wage can be imposed on one group of workers, why not on others? If it is the solution for workers from 16 through 19, why not for those from 20 to 24? That, after all, is the fastest-growing segment of the population, while teenagers are rapidly declining as a proportion of the population.

If wage discrimination can be based on age, why not on race? Blacks have much higher unemployment than whites -- why shouldn't they have the "benefit" of working for lower wages to do the same job?

The national experience teaches us that discrimination of any kind, for any reason, is incompatible with democracy and fatal to the idea of social and economic justice. Work must be paid for as work, regardless of age, race or sex of the worker.

The solution to problems of unemployment is jobs -- fair for every American able and willing to work, and not a reliance on jobs at lower wage rates.

Senator NICKLES. Our next panel—may have some interesting points which may provide a counter aspect to this. Senator Riegle, you might be interested in one because he is from Chicago.

We have Dr. June O'Neill, who is director of the Program of Policy Research on Women and Families, from the Urban Institute. We have Dr. Hashimoto, who is associate professor of economics, University of Washington, in Seattle, Wash., and we have Renault Robinson, who is a commissioner of the Chicago Housing Authority.

We welcome you, and I would like to inform you and the other people that are scheduled to testify before the committee that due to the length and the number of Senators that appeared for our last panel, all of whom chose to use their 10 minutes, we have put ourselves in somewhat of a time constraint due to the fact that we are obligated to be out of this room by no later than 1 o'clock.

I would state to all witnesses that their prepared statements will be read by myself and by other members who are very interested in this subject. We would appreciate your brief summary and synopsis of what you have heard today, yesterday, what you think the net effects may be positive or negative, of the proposed legislation, and who it might help or hurt.

Dr. O'Neill, would you please begin?

STATEMENT OF JUNE O'NEILL, DIRECTOR, PROGRAM OF POLICY RESEARCH ON WOMEN AND FAMILIES, THE URBAN INSTITUTE, WASHINGTON, D.C.; MASANORI HASHIMOTO, ASSOCIATE PROFESSOR OF ECONOMICS AND PUBLIC AFFAIRS, UNIVERSITY OF WASHINGTON, SEATTLE, WASH.; AND RENALT A. ROBINSON, COMMISSIONER, CHICAGO HOUSING AUTHORITY, CHICAGO, ILL., A PANEL

Dr. O'NEILL. Mr. Chairman and members of the committee, I am pleased to be here today. I will briefly review the findings of economics concerning the labor market effects of the minimum wage and then turn to the implications for a youth differential.

First, the question of whether exploitation of workers would occur without a minimum wage: By exploitation, I mean a situation where workers are paid a wage that is less than their marginal contribution to a firm's revenue. But a firm could get away with such behavior only if workers were for some reason unable to go to another firm or if firms banded together in a collusive agreement to hold down wages.

The isolated, one-company town of the past might have met these conditions, but today we live in a large and mobile economy. Close to one-fifth of all employed workers had been in their jobs for less than 6 months in 1979. Workers maintain a healthy quit rate and rates of geographic migration are high. Thousands of firms compete with each other for workers. Under these circumstances, I do not believe that exploitation of workers could be widespread.

This does not mean that without a minimum wage, no worker would earn a wage below the current minimum. A decree establishing \$3.35 an hour as the legal minimum does not alter the fact that some workers are just not capable of providing work worth \$3.35 an hour. As a result of this fact, employers will react to the minimum by reducing their employment of workers whose produc-

tivity does not command the minimum standard. No matter how kind-hearted the employer, market conditions will make it almost inevitable that the firm follows this course of action.

As a result of a hike in the minimum, firms will change the way they produce the product by substituting physical capital for labor or more highly skilled labor for less-skilled labor in order to minimize the increase in costs. And if their product can be easily substituted by consumers, such as laundering at home for laundry done commercially, so that even small changes in price result in large declines in consumer purchases, their businesses will ultimately decline and resources will shift into the production of goods and services using skilled labor and capital that are not affected by the minimum wage.

The minimum wage cannot play Robin Hood, taking income from greedy capitalists and giving both higher pay and jobs to the low-skilled worker. The market does not allow that to happen.

The implications of this analysis are clear. As a result of an increase in the minimum wage, the employment of workers with low skills will be less than would otherwise have been the case. How much less will depend on the level of the minimum wage relative to what the wage would have been in the absence of the minimum, and also on the potential substitution of other inputs for low-skill labor.

A large number of econometric studies have tried to measure the effect of the minimum wage on youth employment. The focus has been on youth because as a result of less experience and maturity, they are lower productivity workers and therefore more likely to be significantly affected by a minimum wage. They are the largest single group affected by the minimum wage.

These studies have investigated the net effect of changes in the level and coverage of the minimum wage on quarterly changes in teenage employment over the past 20 to 30 years. They have held constant the possibly confounding effects of other factors that affect employment, such as business cycle fluctuations, school enrollment, and the age composition of the population.

Out of 12 major statistical studies done over the past decade by different economists using different techniques, all found a negative effect of the minimum wage on the employment of youth 16 to 19 years old. A table summarizing these results is attached to my prepared statement.

Most commonly, the magnitude of the effect was such that a 10-percent increase in the minimum wage resulted in a 1- to 3-percent reduction in teenage employment. In terms of numerical increases, the studies suggest that a 10-percent reduction in the national minimum wage would increase the employment of teenagers by between 100,000 and 220,000.

The studies also find that the minimum wage tends to increase the measured youth unemployment rate, but the effect is weaker because it is more complex. The reduction in employment generated by the minimum wage need not be translated one for one into an increase in unemployment if youth become discouraged as a result of the tighter employment situation and withdraw from the labor force. Indeed, a large proportion of disemployed teenagers do remain outside the labor force, and it is this pattern that explains

why the positive effect of the minimum wage on the measured teenage unemployment rate is not as strong as the negative effect on employment.

The willingness of teenagers out of the labor force to accept work at wages below the minimum wage has been indicated in surveys. The results of one survey suggest that close to 1 million youth now out of the labor force would be willing to work at 85 percent of the minimum; 600,000, at 75 percent of the minimum.

Several proposals have been made which would leave the national minimum wage in place but would lower it or eliminate it for teenagers. By extension of the analysis of the effect of the minimum wage on teenage unemployment, I believe it is pretty clear that a youth differential would, in fact, expand the employment of teenagers.

Senator NICKLES. Dr. O'Neill, could I interrupt you at that time? Could I go ahead and go to the rest of our panelists? We are on a 5-minute limitation and if we do not move—I am going to come back and ask you a question that I think you are going to be interested in.

Dr. O'NEILL. Fine; thank you.

[The prepared statement of Dr. O'Neill follows:]

STATEMENT OF JUNE O'NEILL ON THE
EFFECT OF THE MINIMUM WAGE ON YOUTH EMPLOYMENT
BEFORE THE LABOR SUBCOMMITTEE OF THE
SENATE COMMITTEE ON LABOR AND HUMAN RESOURCES

March 25, 1981

Mr. Chairman and members of the committee, my name is June O'Neill. I am an economist and the Director of the Program of Policy Research on Women and Families at The Urban Institute in Washington, D.C. I am appearing today, however, in an individual capacity and the views that I am expressing are solely my own and are not necessarily the views of The Urban Institute or its sponsors.

One of the striking revelations of my student days in economics was the idea that the minimum wage -- which I had always accepted as an institution that saved workers from exploitation -- was, in fact, likely to be harmful to workers, particularly low-skilled workers. Unlike many issues -- the causes of inflation or the effect of a tax cut, to name two -- the disemployment effect of the minimum wage is an issue about which economists are in substantial agreement. Moreover, economists have produced a large literature of empirical research on the subject, with results pointing in the same direction.

Today I will briefly review the findings of economics concerning the labor market effects of the minimum wage and then turn to the implications for a youth differential. First, there is the question whether exploitation of workers at the low end of the wage distribution would occur without a minimum wage. Exploitation can be said to exist when workers are paid a wage which is less than their marginal contribution to a firm's revenue. But a firm could indulge in such behavior only if workers were for some reason unable to go to another firm or if all firms banded together in a collusive agreement to hold down wages. Perhaps in the past an isolated one-company town might have met

these conditions for exploitation. But today we live in a large and mobile economy. Close to one-fifth of all employed workers had been in their jobs for less than six months in 1979, according to a survey of job tenure taken by the Department of Labor's Bureau of Labor Statistics. Workers maintain a healthy quit rate (about two of every one hundred employees in manufacturing quit each month) and rates of geographic migration are high. Thousands of firms compete with each other for workers. Under these circumstances, exploitation of workers could not be widespread.

This does not mean that without a minimum wage no worker would earn a wage below the current minimum. A decree establishing \$3.25 an hour as the legal minimum (with some exceptions) does not alter the fact that some workers are just not capable of providing work worth \$3.25 an hour. And as a result of this fact, employers will react to the minimum by reducing their employment of workers whose productivity does not command the \$3.25 standard. No matter how kindhearted or generous the employer, market conditions will make it almost inevitable that the firm follows this course of action. Only in the rare case where a firm could pass on all the higher costs of employment to the price of the product and suffer no decline in demand for its product (an inelastic demand) would firms pay the minimum and employ the same number of workers as at the pre-minimum level. The more likely scenario is that firms will change the way they produce a product by substituting physical capital for labor, or more skilled labor for less skilled labor to minimize the increase in costs. And if their product has ready substitutes (such as laundering at home for laundry done commercially) so that even small changes in price result in large declines in consumer purchases, their business will ultimately decline and resources will shift into the production of goods and services using skilled labor and capital that are not affected by the minimum wage. The minimum wage cannot

play Robin Hood, taking income from the greedy capitalist and giving both pay and jobs to the low-skilled worker. The market will not allow it.

The implications of this analysis are clear. As a result of an increase in the minimum wage, the employment of workers with low skills will be less than would otherwise have been the case. The extent of the effect would depend on the level of the minimum wage relative to worker productivity and the potential substitution of other inputs for low-skill labor.

A large number of careful econometric studies have attempted to measure the effect of the minimum wage on employment, usually youth employment. The focus has been on youth because as a result of less experience and maturity they are lower productivity workers and, therefore, more likely to be significantly affected by a minimum wage. Specifically, the studies have investigated the net effect of changes in the level and coverage of the minimum wage on quarterly changes in teenage employment over the past 20 to 30 years (holding constant the possibly confounding effects of other factors such as business cycle fluctuations, school enrollment and age composition of the population). Out of 12 major statistical studies done over the past decade by different economists using different techniques, all found a negative effect of the minimum wage on the employment of youth 16 to 19 years old. Most commonly, the magnitude of the effect was such that a ten percent increase in the minimum wage resulted in a one percent to three percent reduction in teenage employment (Table 1). In terms of numerical increases, the studies indicate that a ten percent reduction in the national minimum wage would increase the employment of teenagers by between 100,000 and 220,000.

The studies also find that the minimum wage tends to increase youth unemployment, but the effect is weaker and more complex. The reduction in employment generated by the minimum wage need not be translated one for one

into an increase in unemployment if youth become discouraged as a result of the tighter employment situation and withdraw from the labor force. Evidence suggests that indeed a large proportion of disemployed teenagers do remain outside the labor force and it is this pattern that explains why the positive effect of the minimum wage on teenage unemployment is not as strong as the negative effect on employment.

Another effect of the minimum wage for youth that has been noted relates to on-the-job training. Without a minimum wage, it has been argued (and some evidence has been accumulated in support) that more firms would be willing to train teenagers since they would then be able to share the expense of their investment with the teenager by paying a lower wage. In this way training opportunities for youth would be expanded.

Although young people might be the group whose employment prospects would be most improved by elimination of the minimum wage, they are not the only group who might benefit. About nine percent of adults 20 years and over now earn wages at or below the minimum wage, compared to 44 percent of 16 to 19 year olds. But the non-youth population is considerably larger than the youth population. As a result, persons 20 years and older comprise about 70 percent of the wage group at or below the minimum. This group includes some workers who receive a large percentage of their income from tips and are, therefore, more properly classified as above the minimum. Some adult workers in this group may also be in transitory jobs -- such as students in the 20 to 24 year old group and homemakers and others just entering the labor force. But some of the adult population are low-skill individuals with more permanent labor market handicaps. Although measures of the employment effects of the minimum wage are not available for this group, it is likely that their opportunities for employment would also be expanded in the absence of the minimum wage.

Effects of a Youth Differential

Several proposals have been made which would leave the national minimum wage in place but would lower it or eliminate it for teenagers. By extension of the analysis of the effect of the minimum wage on teenage employment, I believe it is pretty clear that a youth differential would expand the employment of teenagers. In fact, the major concern about a youth differential is that it could go too far, creating large numbers of job opportunities for low-productivity teenagers while reducing the employment opportunities of other low-skill workers who are not teenagers and would not, therefore, qualify for the exemption. Unfortunately, there is no evidence available on which to base an estimate of the magnitude of this additional boost to teenage employment or the possible disemployment of adults that could be generated by a youth differential. We simply do not know what the economic and technological possibilities are for substituting teenagers for non-teenage workers. Based on estimates of the substitutability between inputs derived from other types of situations, some economists have speculated that the gains to teenagers would outweigh the loss to adults by a large margin. But these are still speculations, not hard evidence.

Some proposals have attempted to put restrictions on a youth differential in order to prevent the substitution of youth for adults. Most substitution, however, would not likely occur through the overt firing of adults and hiring of teenagers. Rather it would take the form of choosing teenagers over adults for new hires or, even more indirectly, would emerge as those firms and industries which utilize teenage labor expanded relative to others. In any event, prohibitions against substitution would be extremely difficult to enforce.

One boundary to the possible employment effects of a youth differential (or the elimination of the national minimum wage) that should be considered

is the potential supply of teenagers who are willing to work at a wage below the minimum. Surveys asking teenagers about their willingness to work at subminimum wages indicate that close to one million youth now out of the labor force would be willing to work at 85 percent of the minimum; 600,000 at 75 percent of the minimum. What people say and what they would do are, of course, quite different matters. Nonetheless, at even half these numbers, lack of supply response should not be a significant factor. These numbers do indicate, however, that there would be a limit to how low a subminimum wage would fall even without any lower limit specified. The numbers willing to work at 75 percent are considerably lower than that at 85 percent and one would expect further drop-off at lower levels.

In sum, a youth differential would be a benefit to teenagers, considerably expanding their opportunities for jobs and possibly on-the-job training as well. Unlike the straight elimination of the minimum wage, however, a youth differential could adversely affect the employment of low-productivity adults. The possible size of this adverse effect is not known. But it is a cost to be weighed against the clear gains to youth.

Table 1. Summary of Previous Time-Series Studies

	Katze (1970)	Moore (1971)	Adler (1971)	Engerer- Nagels (1972)	Lovell (1972)	Adler (1973)	Lovell (1973)	Gally (1975)	Gally (1976)	Gramlich (1976)	Rachlinski- Nisner (1970)	Nisner (1976)	Wajch (1976)	Ragan (1977)	Muttille (1978)	Fremant (1979)	Ragan (1979)	Wachter- Klein (1979)
Estimated effect of a 10% change in the minimum wage																		
Percent change in teenage employment	-.98	-	-	-2.96	-	-	-	-1.20	-.66	-.94	-2.31	-1.78	-.65	-.84	-2.46	-.52	-2.52	
Change in teenage unemployment rate (in percentage points)	-.01	3.65	2.53	-	-.00	.52	-.25	-	-	-	.45	-	.75	.10	.00	-	.51	
Equation specification																		
Period studied	1954- 1968	1954- 1968	1954- 1970	1954- 1968	1954- 1968	1954- 1965	1954- 1968	1954- 1968	1954- 1974	1940- 1975	1954- 1969	1954- 1964	1963- 1972	1963- 1976	1968- 1977	1963- 1978	1962- 1978	
Disaggregation	ARS	ARS	ARS	RS	ARS	ARS	ARS	ARS	AS	AS	ARS			ARS	AS	A	ARS	ARS
Dependent variable(s)	E/P L/P	U/L	U/L	X	U/P	U/L	U/P	E/P	E/P	E	E/P L/P		E/A L/P	E/P L/P	E/P L/P	E/P U/L	E/P U/P	E/P U/P
Functional form	LIN	LIN	LOG	LOG	LIN	LOG	LIN	LIN	LIN	LOG	LIN		LOG	LOG	LIN	LIN	LOG	LOG
Lag structure		AL	AL			AL		AL	AL		AL	AL		X-1	AL		X-1	
Variables included																		
Minimum wage	M1	M3C	M3	M2	M1	M6	M3C	M1	M1	M6	M1	M1	M1	M1	M2	M3	M1	M3
Business cycle	C3	C3	C1	C4	C5	C5	C5	C2	C2	C5	C3	C3	C2	C3	C3	C1	C3	C3
Youth population share	P1	-	-	-	P1	-	-	P1	-	-	-	-	-	-	P1	-	P1	P2
Armed forces	AF	-	-	-	-	-	-	AF	AF	AF	AF		(AF)	-	A2	-	-	AF
School enrollment	S1	-	-	-	-	-	-	-	-	-	(S1)	S2		S2	-	-	S2	-
Training and employment programs	X1	-	-	-	-	-	-	X1	-	-	(X2)	X2		X2	-	-	X2	-
Time trend	-	T	-	-	-	-	-	-	-	T	TT		T	T	TT	T	T	T

Note: () denotes variables included in other reported equations.

Source: "Time-Series Evidence of the Effect of the Minimum Wage on Teenage Employment and Unemployment" by Charles Brown, Curtis Gilroy and Andrew Kohen

Key to Table 1

Disaggregation

A = age
R = race
S = sex

Dependent variables

E = teenage employment
U = teenage unemployment
L = teenage labor force
P = teenage population
A = adult population

Functional forms

LIN = linear
LOG = double logarithmic

Lag structure

X-1 = minimum wage lagged one period
AL = almon log

Minimum wage variable

M1 = youth coverage x minimum wage/average hourly wage
M2 = total coverage x minimum wage/average hourly wage
M3 = minimum wage/average hourly wage
M4 = minimum wage/price index
C = coverage as a separate variable

Business cycle

C1 = total unemployment rate
C2 = adult unemployment rate
C3 = prime-age male unemployment rate
C4 = total employment
C5 = real output or output index

Youth population share

P1 = teenage population/total (or adult) population
P2 = youth (16-24) population/total population

Armed forces

AF = armed forces/population (teenagers)
A2 = separate equation for armed forces employment

School enrollment

S1 = enrollment/population (teenagers)
S2 = separate equation for enrolled, not enrolled

Training and Employment Programs

X1 = dummy variables for years with substantial enrollments
X2 = enrollment in specific programs/population

Time

T = linear time trend
TT = time and time squared

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Senator NICKLES. Dr. Hashimoto.

Dr. HASHIMOTO. Hashimoto, yes.

Senator NICKLES. Thank you. You came from Seattle, Wash.; you traveled a fair distance and we appreciate your assistance. I have read Dr. O'Neill's testimony. I have not read yours yet, but I will.

Dr. HASHIMOTO. OK, fine. What I would like to do is briefly summarize the highlights of that report.

I would like to start by reminding ourselves that the primary purpose of the minimum wage law is to reduce poverty. However, the law is an ineffective instrument for such a purpose. Its main deficiency is that it applies across the board to all low-wage workers, regardless of family size, family income, and the reasons for low wage.

For example, according to one study, fully 40 percent of low-wage teenagers were in families with income above \$15,000 in 1973, which was way above the median family income in that year. A sound antipoverty policy would embody a mechanism to identify the really needy and the source of their poverty, and would try to remedy these difficulties. The minimum wage law achieves none of these goals.

Given that the law is not an effective antipoverty device, what has it accomplished for young workers? Here, the accumulated evidence points to the conclusion that the law, on balance, has harmed the employment opportunities for young and other low-wage workers.

Since the adverse effects on employment and labor participation have been amply documented in the literature, let me go on to the more recent findings now.

Beyond the employment and unemployment effects, the minimum wage impairs the young worker's employment and earning capacity in subtle but important ways. The compensation that a worker receives usually includes a variety of fringe benefits in addition to wages. Perhaps the most important fringe benefit that the young workers receive is the opportunity that jobs offer to acquire new skills and knowledge and to improve on the old. Such opportunity, usually referred to as on-the-job training, is essential to enhancing the future productivity and the earning capacity for young workers.

Although jobs undoubtedly differ in both the quantity and quality of training they offer, learning processes, both through formal training programs and informal learning-by-experience processes, are believed to be the basic characteristics of practically all working activities.

The minimum wage law reduces the amount of training and thereby impairs the growth of young workers' earning capacities in two ways. First, to the extent that the minimum wage leads to reduced employment and to increased unemployment, it deprives affected workers of opportunities to acquire skills on the job. This is an obvious implication of employment and unemployment effects associated with the minimum wage.

Second, minimum wage law may retard the growth of future earnings capacity by causing a reduction in the quality and quantity of on-the-job training offered to those who remain employed.

Faced with an increased wage mandated by the law, employers counter by cutting back on various benefits, including flexibility in hours of work, work environment, job safety, and on-the-job training. In other words, a teenage worker is not necessarily better off if he gets a job paying a minimum wage higher than he would get in the absence of the law. With his current employment opportunities limited to jobs in which training has been reduced, he may find himself worse off in the long run.

Although economists have long been concerned with this possibility, definitive evidence justifying this concern has become available only recently. The studies by Jacob Mincer and Linda Leighton, and by myself, concur that the minimum wage lowers the job experience-induced growth in earnings.

How can we tell if a worker's increased current wage is more than enough to compensate for the reduced on-the-job training and experience resulting in reduced future earnings? According to my study using the National Longitudinal Survey data, even though an increased minimum wage may raise the current wage for some workers, such a benefit is far smaller in magnitude than the loss of future earnings caused by diminished training.

For example, according to my study, the 1967 amendments to the minimum wage law, which expanded the coverage substantially, as well as raised the minimum wage rate, resulted in reductions in the value of training for white young males aged 14 to 24 years in 1966 by some 26 to 31 percent. The full wage of these workers—that is, the sum of their current wage and the value of training they received—was reduced by 14 to 17 percent. Both reductions were reflected in their reduced earning power in 1969.

Although the results of my investigations were inconclusive about the effects on black youth, Mincer and Leighton reported detecting some adverse effects, though they were statistically insignificant.

Policy alternatives: the most direct way to remove the barriers to training created by the minimum wage legislation is to exempt workers from the coverage. Such an exemption would apply at least to teenagers, if not to all youth up to 24 years of age.

There have been many discussions of youth differentials or sub-minimums, sometimes called teenage differentials, as a means of reducing the undesirable unemployment effects on youths. Youth exemption would go further than a mere differential in eliminating adverse minimum wage effects both on training and employment. It would also eliminate the necessity to engage in endless debate as to what the appropriate differential ought to be. Any differential chosen would be arbitrary anyway.

Senator NICKLES. Doctor, I am going to ask you a question in a moment that should be interesting.

Renault, would you like to make a statement? If you would just pull the microphone up close.

Mr. ROBINSON. OK.

Senator NICKLES. You do not need to read your statement; we will submit it, if you have a statement.

Mr. ROBINSON. This is a summary.

Senator NICKLES. I am very interested in your experience in Chicago, and what you think we could do or not do to help put more of those kids to work.

Mr. ROBINSON. OK.

The problems of unemployed youth are on a collision course with employed adults.

Senator NICKLES. Would you identify yourself first, so everyone will know who you are?

Mr. ROBINSON. My name is Renault Robinson; I am a commissioner of the Chicago Housing Authority. I take this opportunity to thank you for allowing me to testify. My remarks will be brief and this is a summary.

Senator NICKLES. Thank you.

Mr. ROBINSON. The problems of unemployed youth are on a collision course with employed adults. The unemployment dilemma is this: Who will get the jobs, youth or adults? Do we force early retirement to accommodate the youth? Do we give preference to the adult because of dependability that causes him to be considered more reliable, or do we approach the problem to accommodate both needs?

There is a direct correlation between crime and youth unemployment, especially youth with limited education. The disproportionate number of unemployed black youth is a glaring reality that cannot be ignored in any solution to the problem of unemployment.

Our communities are busting at the seams with 15-, 16-, 17-, and 18-year-old youth who have never been employed or who have never experienced a job in any way. What should be done? An employer asks, "Should I hire a young hipster when I can hire a serious, mature adult who faces desperately the responsibilities of keeping his family in place?"

Youth unemployment has infiltrated the very fabric of our society and it has alienated our youth, encouraging them to participate in crime and other unhealthy methods of making money that they need.

Minority youth have, in the past, been creative in responding to problems of finding jobs. Makeshift jobs were a part of growing up for most minorities. Meaningful sources of youth employment were transporting groceries for senior citizens, selling newspapers, babysitting, bagging groceries, shining shoes, collecting rags, newspapers and old iron for small fees. In later years, Government provided job training under the CETA program. The successes and failures of CETA speak for themselves.

Youth need jobs to make them feel good about themselves. Menial jobs are not enticing to most young people, for they view their first job as a potential for permanent employment. The impoverished youth of this society are forced to make realistic commitments to employment opportunities for life.

A young man who is a member of a family of nine children on public aid cannot afford to sustain himself in school, and thus drops out to seek employment. Upon securing menial employment which affords him the opportunity to contribute to the household, he becomes dependent on the menial employment to sustain himself through this critical stage of life.

Youth employment has to be meaningful training for it to be cost-saving for both business and taxpayers. Only quality training will propel young workers into the world with healthy attitudes about work and contributing to society.

Subminimum wages in relationship to minimum wages is a less important item than that of menial busy work versus occupational and career development work.

In summary, I recommend that the levels of employment be developed and that the minimum wage have a built-in compensation that prepares the youth for development skills relative to the total operation of the employer. For example, a department store hires youth A for a subminimum wage. Four days a week, the youth sweeps the floor and one day a week, he is exposed to higher levels of employment—for example, stock inventory clerk, personnel management, purchasing, et cetera—with an additional requirement that he or she satisfies a prearranged academic requirement that provides school credit or some variation thereof.

Youth B is hired by a hotel as a bellhop or a maintenance person. Youth B works 3 days at regular duties of bellhop; the other 2 days, Youth B receives on-the-job training for overall operations of the hotel, such as desk clerk, switchboard operator, sales management, et cetera.

Self-confidence as well as self-identification has a very significant influence on youth development and vision. Government as well as private industry has a binding obligation to provide today's youth, tomorrow's leaders, with the necessary faith and hope that America's political, economic, educational, and social systems are worthwhile investments for all Americans and should be participated in by our youth.

Senator NICKLES. Thank you. Commissioner, let me ask you a question. As a commissioner of the housing authority, do you think that if we made a change, for example, exempting young people from the minimum or imposing a youth differential of 75 or 85 percent, we would be helping or hurting the unemployed youth in Chicago?

Mr. ROBINSON. Without a doubt, you would be helping them. Teenagers cannot get a job at the minimum wage; employers will not hire them. There are no ifs, ands, or buts about that. These teenagers are out on the street committing crimes. At least 90 percent of the unemployed youth in public housing in the city of Chicago cannot get a job in any way, shape, or form. I think that if they were exempted, they would have an opportunity to get a job and to earn a living, which would allow them to either further their education or contribute in some way to their own well-being and that of their families.

These teenagers are not going to displace adults in jobs—no way.

Senator NICKLES. I appreciate it. If we were able to come up with a pilot program, or in some way or another were able to exempt some people in Chicago, especially those people that are living in these housing projects and have never had a job. Let us say they began working for \$2.25 or \$2.50, or whatever wage an employer came up with. Do you think they would be bound into that wage for the rest of their lives, or do you think they would work themselves up to higher levels through training, et cetera?

Mr. ROBINSON. I think they would work themselves up. I worked myself through school with a paper route when I was in grade school and working in a shoe shop when I was in high school, and then taking a job in a cafeteria when I was in college. I was making less than what other people were making, but it was enough to help me make my way. I do not think that people would be bound or locked in if they had the opportunity to work.

Senator NICKLES. You are bringing a perspective that has not been brought to these hearings before. I indicated earlier today that we have had people representing, organized labor and business stating yes, they are for it, or no, they are not. But you are a little closer to the people we are trying to help.

If we were able to go into that housing district, the one that Mayor Byrne is moving into, with an unemployment rate of 90 percent and none of them ever having had a job would 16-, 17-, and 18-year-old kids like to have the opportunity to work?

Mr. ROBINSON. There is absolutely no doubt in my mind that they would love to have the opportunity. Right now, in one of our housing developments, we have had 10 murders in 9 weeks, all teenagers, all under the age of 21, all involved in gang activities. These kids need a job; they need an opportunity to better themselves. I think we have to realize that and give them that opportunity.

Senator NICKLES. And present law prohibits you from paying them less than \$3.35?

Mr. ROBINSON. That is right, and therefore you will not get hired, even for janitorial jobs. We use over 1,300 janitors in the Chicago Housing Authority; we cannot hire these kids for that. We hire them under CETA, but CETA is being abolished. These kids will not get a job.

You have to realize that teenagers and adults have different types of responsibilities. If adults are offered a job at \$2 an hour, they may refuse because they can get some form of aid. A teenager has nowhere to turn; he has to be able to provide for himself, or he has to steal or do something else.

I think it is important that we realize that we are talking about very poor people who have nowhere else to turn. We must give them an opportunity to work; we must at least afford them the chance to pull themselves out of the gutter. If we keep this artificially high barrier in place, we are creating our own worst enemy.

Senator NICKLES. I appreciate your comments and also your sincerity. It is very evident that you are very, very sincere in what you say, and I appreciate that.

Mr. ROBINSON. Thank you.

Senator NICKLES. Dr. Hashimoto—did I lose the pronunciation?

Dr. HASHIMOTO. Hashimoto.

Senator NICKLES. You probably have done more study in this area than any of the witnesses that we have had to date. I especially wish that some of my colleagues could be here, because some of us, including myself, have cited some of the studies that have been made.

I do not know if you heard my opening statement, but it basically said that this problem has had an abundance of study, all of which has contributed very little to putting people back to work.

You have authored a study on this subject, is that correct?

Dr. HASHIMOTO. Yes. A monograph is due to appear in print sometime this spring from the American Enterprise Institute.

Senator NICKLES. Would you please do me the personal favor of forwarding a copy to me and possibly a few other copies for the members of this committee?

Dr. HASHIMOTO. I would be happy to.

Senator NICKLES. We are very, very interested in it.

I listened closely to your testimony. I have not read your statement, but I will. Your statement mentioned several things that I am very interested in, and there is one point I want to address.

The No. 1 objection that came from some of the organized labor groups and from some of the members of this committee concerning a youth differential or the exemption was the fear of displacement.

I know you touched on it in your opening remarks, but would you briefly give us your opinion? Are we talking about adding new jobs or are we talking about young people taking somebody else's job?

Dr. HASHIMOTO. Well, I am sure that in the immediate run, there will be some displacement. To the extent that older workers are substitutable for some jobs by younger workers, that is to be expected. But the way to deal with that is to exempt older workers too from minimum wages; not to prevent young workers from getting a job, but to eliminate the minimum wage altogether. That would be my answer.

The second observation I would make is that one of the reasons why organized labor is against this is, in part, because of the possible displacement of jobs away from union workers to teenagers. There is no doubt in my mind that there will be some displacement, but I think such effects are secondary in importance. The cure is not to strengthen the minimum wage law, but to reduce it.

Senator NICKLES. Your statement basically hinges on the fact of competition. Do you mean that by bringing more people into the job market, we would have more competition?

Dr. HASHIMOTO. Well, if you exempt young workers, they are going to be a cheaper source of labor than some of the older workers who may be covered by minimum wages, although their skill levels may be comparable to those young workers. So, the employer may hire young workers; that is only rational.

Senator NICKLES. Let us say we have eliminated the minimum wage. Do you think the net result, over a 2-year period, would be some displacement and a greater opening of new doors so that people would be able to get into the system?

Dr. HASHIMOTO. Yes. I must say, though, that I am talking out of a theory. Very few studies have been done on this question and I cannot give you the precise numbers of employment displacement effects that might be forthcoming in the short run. But I am sure there will be some, but I think that is not a major problem in the long run. I think the way to do it is to replace the minimum wage with a sound antipoverty policy, or some other alternative policy, some of which I briefly discussed in my report.

Senator NICKLES. Senator Kennedy mentioned that many persons, including myself, have been somewhat opposed to much "experimentation." We could say that the Government is going to pick up the cost, for instance, the tax credits for the differential, et cetera.

But it seems like there is one experiment we have not tried, or we have not tried in a long time, that being free enterprise. I think that is basically what you are saying.

Dr. HASHIMOTO. Yes, but I think it is true at the same time that we do need some antipoverty policy. The minimum wage is totally ineffective in achieving that goal.

Senator NICKLES. Do you think the minimum wage, going all the way back to when it was enacted in the thirties, has done more damage or good to the economy, to employment, to productivity, and to the people it is trying to help?

Dr. HASHIMOTO. Well, judging from the empirical evidence that I am aware of, the Federal minimum wage law enacted in 1938 has done more harm than good.

Senator NICKLES. You went all the way back to 1938. Do you think it would also be true for the eighties? Do you think it is doing more damage than good today?

Dr. HASHIMOTO. I believe so.

Senator NICKLES. You believe so?

Dr. HASHIMOTO. Especially for young workers.

Senator NICKLES. Especially for young people?

Dr. HASHIMOTO. Yes.

Senator NICKLES. Why?

Dr. HASHIMOTO. Because a larger proportion of young people are affected by minimum-wage laws than the proportion of older workers.

Senator NICKLES. When you say they are affected by the minimum-wage law, do you mean—

Dr. HASHIMOTO. Their wages would be lower than the minimum wage would be in the absence of the law, but they would be able to get employment and training.

Senator NICKLES. OK.

Dr. O'Neill, let me ask you a couple questions. You made a very interesting comment. Let us say we exempted 16- and 17-year-olds from the minimum wage. Do you think they would be more exploited? Many have mentioned that everybody should be making at least \$3.35 an hour.

Do you think they would be more exploited by making \$2.50 an hour, or by having a minimum wage of \$3.35 an hour and not having a job? You touched on that subject.

Dr. O'NEILL. Well, I think that if the minimum wage were extended to my babysitter and I had to pay her \$3.35 an hour, she would feel that she was being exploited because I would not hire her anymore.

If you took away the minimum altogether for teenagers, it is hard to say what the lowest wage would be that teenagers would accept. One clue comes from the responses of teenagers in the survey that I mentioned.

Teenagers out of the labor force were asked, "If somebody offered you a wage at such a percentage below the minimum, would you

take it," and a substantial number indicated they would work at 15 to 25 percent below the minimum. They would not feel exploited; they would more likely feel lucky to get the opportunity.

Senator NICKLES. I think you brought up an interesting point. It has been a few weeks since I read this, but I think you are obligated, if you pay your babysitter over \$100 a year, to pay the minimum wage. I think that if that were the case, we would find many babysitters not being able to find a job. So, how far would the ramifications of this go?

You had another point that you wanted to make when I interrupted you. I did not want to interrupt, but I wanted to hold to our 5-minute rule. Do you have a further comment that you wanted to make?

Dr. O'NEILL. About the displacement issue—I think it is speculative at this point. No one really knows how much displacement of nonteenagers there would be. It is, however, a consideration to be weighed against the gains to teenagers.

I would also like to point out that displacement would not likely occur in a confrontational situation where an adult long-term employee is fired and replaced with a teenager. Teenagers are not easily substituted for experienced workers. The form that displacement would more likely take is that firms would choose teenagers for new hires in unskilled jobs in preference to others with similar skills who do not qualify for the minimum wage exemption—groups such as nonteenage students or other newcomers to the labor force. In the long run, more indirect substitution might arise as the firms and industries with technologies that could make use of teenage employment grow relative to industries which are more dependent on highly skilled labor.

I agree with Dr. Hashimoto that the rejoinder to the issue of possible displacement of nonteenagers is to exempt more groups from the minimum wage—in addition to teenagers—or to freeze or eliminate the minimum wage altogether.

Senator NICKLES. Would you agree with the statement that we should either expand the exemption from the minimum wage or do away with the minimum wage altogether?

Dr. O'NEILL. If the minimum wage is politically impossible to eliminate, I would look at the youth differential as a second best solution. The youth differential would be a good step because it does take care of the one group that is most heavily affected and who suffers the greatest disemployment from the minimum wage.

Senator NICKLES. In your opinion, which would be better, the youth differential or the exemption?

Dr. O'NEILL. By "youth differential," I was also referring to the youth exemption. Between the two I think the elimination of the minimum wage for teenagers would be the simplest approach.

Senator NICKLES. Ladies and gentlemen, we wish to thank you for your testimony. I look forward, Dr. Hashimoto, to getting your book. I will read it with interest, and I think others will too.

Commissioner, we appreciate your testimony. We have had 2 days, and you brought in a new light. Dr. O'Neill, your comments were also very, very interesting and we appreciate your input.

Thank you very, very much.

Mr. ROBINSON. Thank you.

[The prepared statement of Dr. Hashimoto follows:]

TESTIMONY FOR SENATE LABOR SUBCOMMITTEE OF THE U.S. SENATE
LABOR AND HUMAN RESOURCES COMMITTEE, Washington, D.C., by Masanori
Hashimoto (Associate Professor of Economics and Public Affairs,
University of Washington, Seattle), March 25, 1981.

Against a history of judicial hostility, the federal minimum wage law was finally enacted in October 1938. Since then the minimum wage provisions have been amended six times, most recently in 1977, raising the level of the nominal minimum wage with each amendment, and with dramatic expansions of the coverage taking place in 1961, 1967, and 1974. Beginning January 1 of this year, the minimum wage rate was set at \$3.35 per hour with an available estimate indicating that as much as 84 percent of all nonsupervisory employees in private, non-agricultural work are covered by this law.

In addition to the federal minimum wage, most states have their own minimum wage laws. State laws are much more complex than the federal law in specifying coverage, variable differentials and other provisions. With a few exceptions such as Alaska, California, Washington D.C., and New York, state minimum wages have been typically below the federal rate. The trend has been for the state rates to converge on the federal rate and for the coverage of state laws, traditionally restricted to women and minors, to expand. As a result, many state laws are becoming redundant.

Compliance with the federal minimum wage law is known to be less than perfect.¹ One reliable estimate suggests that the rate of compliance was about 70 percent in 1973. While the Reagan Administration appears to be less than sympathetic to the law, the likely future prospect is for the coverage to continue expanding and for the rate of compliance to be raised. The prospect for ever increasing coverage and compliance rates adds urgency to the need to assess the law's economic and social impacts. The present Federal Minimum Wage Study Commission is expected sometime this year to report on these impacts with recommendations on proposed changes in the law.

The primary concern of this statement is how the minimum wage affects the labor market experience of young workers. In the absence of the law, many young workers would earn less than the minimum wage. As a result, minimum wage effects are likely to be felt by a large proportion of these workers.

The primary purpose of the law is to reduce poverty. The law, however, is an ineffective instrument for such a purpose. Its main deficiency is that it applies across the board to all low-wage workers regardless of family size, family income, and the reasons for low wage. For example, fully 40 percent of low-wage teenagers were in families with income above \$15,000 in 1973.² A sound anti-poverty policy would embody a mechanism to identify the really needy and the source of their poverty, and would try to remedy these difficulties. The minimum wage law achieves none of these goals.

Given that the law is not an effective anti-poverty device, what has it accomplished for young workers? Here, the accumulated evidence points to the conclusion that the law on balance has harmed the employment opportunities for young and other low-wage workers. I shall briefly discuss the main findings pertaining to young workers. For more detailed discussions, the reader is referred to my Minimum Wage and On-the-Job Training, which will be published this spring by the American Enterprise Institute for Public Policy Research.³

Employment and Unemployment Effects

Most of the studies undertaken by economists have aimed at assessing minimum wage impacts on employment and unemployment rates. The theory of minimum wage effects on employment and unemployment is a straightforward application of elementary demand-supply analysis. An effective minimum wage law, by definition, raises the wage rate in the covered sector above what it would be in the absence of the law. Since labor becomes more costly than before, employers reduce the quantity of labor services they purchase, resulting in disemployment effects. The consequent reduction in the employment demand leads to unemployment in the covered sector. The minimum wage also attracts workers to the covered sector to look for employment at the increased wage, thereby adding to the unemployment effect. Of course, a precise analysis must take into account the fact that the reduced probability of finding a job in the covered sector will mitigate the effect of the increased wage on the incentive to look for employment there.

One might expect unemployment to disappear eventually as those workers not finding employment in the covered sector move to non-covered sectors or to nonlabor-force activities. However, in a dynamic economy in which inflows and outflows of workers are pervasive in labor markets, unemployment effects tend to persist as long as the minimum wage remains effective. Since these effects are greater the higher the minimum wage is relative to the wages that would prevail in the absence of the law, they are likely to be felt most by low-skilled workers.

Past studies by and large confirm the prediction that minimum wages reduce employment opportunities and raise unemployment rates particularly for teenagers, minorities and other low-skilled workers.⁴ Typically, researchers have found that both the coverage and the basic minimum wage result in large unemployment effects for teenagers. However minimum wage impacts tend to diminish as teenagers reach the twenty to twenty-four year age bracket. By the time youths reach that age bracket, their wage is likely to have increased above the minimum wage.

The minimum wage also has significantly reduced the availability of full-time jobs for teenagers. Evidently, teenage workers tend to be sorted into part-time jobs, which typically pay lower wages than full-time jobs. Increased part-time jobs may reflect increased school enrollments as a result of minimum wages. Part-time work is an important source of financing education for many youths. It may also signify a reduction in on-the-job training (OJT) for youths, for part-time jobs are likely to offer less training than full-time jobs. Adverse minimum wage effects are observed also on the labor-force participation rate--the proportion of a specific population that is

either employed or unemployed. Researchers have documented the effects running from increased minimum wages to reduced employment opportunities and eventually to reduced labor-force participation.⁵ These effects were observed to be more pronounced among labor groups with low wages. Evidently, many marginal workers eventually drop out of the labor force altogether rather than waiting in the unemployment queue to find a job paying the minimum wage.

There are important minimum wage effects on the stability of employment as well. Marginal workers tend to suffer the most from frequent job turnover over the course of economic fluctuations. This phenomenon reflects employers' attempts to adjust labor costs to changing economic conditions without having to incur the high fixed costs that are involved in altering the employment of physical capital and skilled workers. When labor demand rises, employers first expand labor inputs by increasing the over-time work of the existing work force and by expanding the employment of low-wage workers before adding to the skilled work force. When demand drops, they decrease labor inputs by first letting go of the low-wage workers as well as by reducing over-time. Employers could adjust labor costs in response to changing demand by cutting wage rates. Such a strategy would help reduce their total reliance on employment as an adjustment mode. For marginal workers, however, downward wage adjustments may be limited by the minimum wage. An effective minimum wage represents a floor below which the employers cannot cut wages. As a result, firms are forced to use employment reduction as an adjustment mode.

One study found that between 1954 and 1968, a typical teenage worker was more than four times as likely as a typical adult worker to lose a job during a downturn in economic activity.⁶ During these years the minimum wage hikes seem to have reduced the cyclical employment variability of white adult males by about one-third, but to have more than doubled teenage employment variability.

The preceding brief discussion suggests that the minimum wage law reduces employment opportunities for young workers, increases their unemployment rates as well as their labor-force withdrawals, and reduces their employment stability over the inevitable fluctuations in the level of economic activity. The results of past studies indicate, therefore, that the minimum wage legislation is inconsistent with the policy of enhancing job opportunities for young workers. One may quibble with the precise magnitudes of the effects, or may complain about the inconclusiveness of some of the findings. It would be very difficult, however, to offer enough counter evidence to dismantle the general consensus pointed to by the existing evidence.

Effects on On-The-Job Training

Beyond the employment and unemployment effects, minimum wage impairs young workers' employment and earnings capability in subtle but important ways. The compensation that a worker receives usually includes a variety of fringe benefits in addition to wages. Perhaps the most important fringe benefit for young workers is the opportunity that jobs offer to acquire new skills and knowledge and to improve on the old. Such opportunity, usually referred to as on-the-job training, is essential to enhancing the future productivities and the earning

capacity of young workers. Although jobs undoubtedly differ in both the quantity and quality of training they offer, learning processes, both through formal training programs and informal learning-by-experience processes, are believed to be the basic characteristics of practically all working activities.

The minimum wage law reduces the amount of training and thereby impairs the growth of young workers' earning capacities in two ways. First, to the extent that the minimum wage leads to reduced employment and to increased unemployment, it deprives affected workers of opportunities to acquire skills on the job. This is an obvious implication of employment and unemployment effects associated with the minimum wage. Second, minimum wage law may retard the growth of future earnings capacity by causing a reduction in the quality and quantity of on-the-job training offered to those who remain employed.

Faced with an increased wage mandated by the law, employers counter by cutting back on various benefits including flexibility in hours of work, work environment, job safety, and on-the-job training. In other words, a teenage worker is not necessarily better off if he gets a job paying the minimum wage higher than he would get in the absence of the law. With his current employment opportunities limited to jobs in which training has been reduced, he may find himself worse off in the long-run. Although many economists have long been concerned with the adverse OJT effects, definitive evidence justifying this concern has become available only recently. The studies by Jacob Mincer and Linda Leighton, and by myself, concur that the minimum wage lowers the job-experience induced growth in earnings.⁷

How can we tell if a worker's increased current wage is more than enough to compensate for the reduced on-the-job training and the reduced future earnings? According to my study using the National Longitudinal Survey data, even though an increased minimum wage may raise the current wage for some workers, such a benefit is far smaller in magnitude than the loss of future earnings caused by diminished training. For example, the 1967 Amendments to the minimum wage law, which expanded the coverage substantially, as well as raised the minimum wage rate, resulted in reductions in the value of training for white young males, aged 14 to 24 years in 1966, by some 26 to 31 percent. The full wage of these individuals--the sum of their current wage and the value of training--was reduced by 14 to 17 percent. Both reductions were reflected in their reduced earning power in 1969. Although the results of my own investigation were inconclusive about the effect on black youths, Mincer and Leighton reported detecting some adverse effects, though they were statistically insignificant. In general, no firm conclusion emerges due, in part, to the low quality of the data for blacks. The findings for whites are as solid as one could hope for in econometric research. By and large, the evidence points to the conclusion that the minimum wage legislation forces young workers to bargain away much of their future earnings for a small increase in current wage to the detriment of their future economic well-being.

Policy Alternatives

The most direct way to remove the barriers to OJT created by the minimum wage legislation is to exempt young workers from the coverage.

Such an exemption would apply at least to teenagers, if not to all youths up to twenty-four years of age. There have been many discussions of youth differentials, sometimes called teenage differentials, as a means of reducing the undesirable unemployment effects on youths. Youth exemption would go further than a mere differential in eliminating adverse minimum wage effects both on OJT and employment. It would also eliminate the necessity to engage in endless debate as to what the appropriate differential ought to be. Any differential chosen would be arbitrary, anyway.

Exempting youths from minimum wage coverage may raise the spectre of youth poverty. But such a conclusion presumes, in the first place, that the minimum wage legislation is an effective anti-poverty device. I have already argued that it is not. Surely, the accumulating evidence about its harmful effects on training, as well as on employment opportunities, renders the case for the minimum wage as an anti-poverty device the weakest when applied to young workers. If youth poverty is the issue, what is needed is a sound income maintenance program, which would transfer income to poor youths efficiently. One such program is a negative income tax.⁸ A negative income tax can be implemented with a minimum of administrative machinery, and its parameters can be chosen to reflect family size, composition, et cetera, in order to determine the level of need for income transfer. Ideally, the entire minimum wage law would be replaced by a more effective anti-poverty policy, such as the negative income tax.

In view of the vested interest groups that the current welfare programs have spawned, however, the economy wide implementation of a

negative income tax program, or any other alternative policy, may take time. Its implementation for youths alone, together with the youth exemption from the minimum wage law, would be a good start. Youth exemption, coupled with a negative income tax program, would eliminate the undesirable side effects of the minimum wage discussed in this testimony while at the same time reducing poverty among young workers.

It is quite possible, however, that the resistance to youth exemption, or even to youth differentials, would turn out to be politically insurmountable.⁹ If the minimum wage legislation must remain on the books, some form of subsidy to encourage the formation of skills is called for. One alternative proposal discussed in the literature is a youth employment scholarship, to be paid to young workers as a supplement to their wage income.¹⁰ The major attraction of this program is that, unlike a subsidy or a tax credit given to the employer, it relies on the individual youth to choose the job that gives him the most valuable combination of training and current wage. Thus, it allows individual differences in interests, time preferences and abilities their full play in determining the choice of training and current wage.

To promote an efficient use of such a subsidy in the formation of human capital, the subsidy should be made applicable either to training on the job or training at school. For example, an eligible youth may receive a voucher entitling him to a certain amount of training, and he may use it either at work or at a vocational school, a community college or even at a four-year college. Either the employer or the school selected by the youth will then redeem the

voucher for cash. Since schools are already subsidized and on-the-job training is not, the voucher would not be made transferable between the two modes on a dollar by dollar basis. Instead, an appropriate rate of transfer would have to be established to reflect the already existing imbalance in the subsidy. The point is simply that by making the voucher applicable to either source of training, the subsidy program would avoid distorting resource allocation between OJT and schooling. It would help to promote competition among employers and among schools, as well as between employers and schooling, in offering quality training services.

There may be many other reasonable policy alternatives. It is not my intention here to present a complete catalogue of them, nor do I wish to prescribe a particular policy instrument. Details of each policy surely would require much more attention than the discussion here has offered before one could rank them by their attractiveness. We look forward, in this year's legislative debate, to serious and informed policy discussions to address particularly the harmful minimum wage effects on young workers and the concrete policy alternatives.

FOOTNOTES

1. Both non-compliance and non-coverage evidently are nontrivial, especially among very low-wage workers. Gramlich reports that in 1975 the minimum wage law raised the wage of only about half of all low-wage workers. See Edward M. Gramlich, "Impact of Minimum Wages on Other Wages, Employment, and Family Incomes," Brookings Papers on Economic Activity 2 (1976), pp. 409-461. Ashenfelter and Smith estimate that for the United States as a whole the compliance rate is about 69 percent in 1973. See Orley Ashenfelter and Robert Smith, "Compliance with the Minimum Wage Law," Journal of Political Economy, Vol. 87, No. 2 (April 1979), pp. 333-350.
2. See Gramlich, "Impact of Minimum Wages."
3. Minimum Wage and On-The-Job Training, American Enterprise Institute, forthcoming 1981.
4. See Finis Welch, Minimum Wages: Issues and Evidence (Washington, D.C.: American Enterprise Institute for Public Policy Research, 1978), Chapter 1. See also, Thomas Gale Moore, "The Effects of Minimum Wages on Teenage Unemployment Rates," Journal of Political Economy, Vol. 79 (July/August 1971), pp. 897-902. For some interesting discussions of the policy relevance of some of the past studies, see Robert Goldfarb, "The Policy Content of Quantitative Minimum Wage Research," Industrial Relations Research Associations Proceedings, 1974, pp. 261-268. Recently, Brown,

- Gilroy and Kohen have surveyed the literature on minimum wage effects on youth employment and unemployment for the Minimum Wage Study Commission. See Charles Brown, Curtis Gilroy and Andrew Kohen, "Effects of the Minimum Wage on Youth Employment and Unemployment," (Minimum Wage Study Commission), Working Paper No. 1 (May 1980).
5. Masanori Hashimoto and Jacob Mincer, "Employment and Unemployment Effects of Minimum Wages," (Washington, D.C., The National Bureau of Economic Research, April 1970), mimeographed, and James Ragan, "Minimum Wages and Youth Labor Market," Review of Economics and Statistics, Vol. 59, No. 2 (May 1977), pp. 129-36. Labor force withdrawal obviously lessens the minimum wage impacts on the measured unemployment rate, for the measured unemployment is defined as the number of persons unemployed divided by the sum of those employed and unemployed. Mincer discusses a model using the probabilistic nature of job search to address this and other related phenomena. See Jacob Mincer, "Unemployment Effects of Minimum Wages," Journal of Political Economy, Vol. 84, No. 4, Part 2 (August 1976), pp. 87-104.
 6. Marvin Kesters and Finis Welch, "The Effects of Minimum Wages on the Distribution of Changes in Aggregate Employment," American Economic Review, Vol. 62, No. 3 (June 1972), pp. 323-332.
 7. Masanori Hashimoto, Minimum Wage and On-The-Job Training, and Linda Leighton and Jacob Mincer, "Effects of Minimum Wages on Human Capital Formation." A paper presented at the American Enterprise Institute Conference on Legal Minimum Wages, Nov. 1-2, 1979.

8. The first economist to discuss this alternative is George J. Stigler, "The Economics of Minimum Wage Legislation," American Economic Review 36 (June 1946), pp. 358-365.
9. That those representing the interests of northern industrial states tend to support minimum wages more vigorously than those from southern states was explained by Henry Simon in terms of northerners' desire to eliminate southern comparative advantage in labor costs. See Henry C. Simon, Economic Policy for a Free Society, (Chicago: The University of Chicago Press, 1948), pp. 135-138. See also, Jonathan I. Silberman and Garey C. Durden, "Determining Legislative Preferences on the Minimum Wage: An Economic Approach," Journal of Political Economy, Vol. 84, No. 2 (April 1976), pp. 317-329. The motive of trade unions for their vigorous support of the minimum wage legislation is obvious and is frequently discussed in elementary textbooks. Recently Leffler argued, and presented some evidence in support of his argument, that poverty-group representatives support the minimum wage law because the law reduces the cost of establishing eligibility for the increasingly generous public assistance programs. Keith Leffler, "Minimum Wages, Welfare, and Wealth Transfers to the Poor," The Journal of Law and Economics, Vol. 21 (October 1978), pp. 345-358.
10. See Martin Feldstein, "The Economics of the New Unemployment," Public Interest 33 (Fall 1973), pp. 3-42.

Senator NICKLES. Our next panel will include William Lucy, who is president of the Coalition of Black Trade Unionists, and secretary-treasurer of AFSCME; Sol Chaikin, who is president of the International Ladies' Garment Workers Union; and Althea Simmons, who is Director of the Washington Bureau of the NAACP.

I am going to have to ask everybody to identify themselves, because I was reading and not looking. They are going to run us out of here whether we are finished or not, and that would not be fair to you or our other panelists. We are going to have to go very, very quickly.

Everybody has been kind enough to provide us with statements, and I do want you to know that I can at least speak for this Senator and say that I will thoroughly review your statements and read them with interest, because we are interested in your input and we do solicit your side of the pros and cons of this particular piece of legislation or this concept and theory.

William Lucy, if you would begin? Do you have a gentleman with you?

STATEMENT OF WILLIAM LUCY, PRESIDENT, COALITION OF BLACK TRADE UNIONISTS, AND SECRETARY-TREASURER, AMERICAN FEDERATION OF STATE, COUNTY AND MUNICIPAL EMPLOYEES, ACCOMPANIED BY HORACE SHEFFIELD AND CHARLES HAYES; SOL CHAIKIN, PRESIDENT, INTERNATIONAL LADIES' GARMENT WORKERS UNION; AND ALTHEA T. L. SIMMONS, DIRECTOR, WASHINGTON BUREAU, NATIONAL ASSOCIATION FOR THE ADVANCEMENT OF COLORED PEOPLE, A PANEL.

Mr. LUCY. Yes. I was not aware that this would be a panel concept, Mr. Chairman. I had asked Mr. Horace Sheffield from Detroit to come in and participate.

Senator NICKLES. Horace Sheffield from Detroit.

Mr. LUCY. And Mr. Charles Hayes from Chicago.

Senator NICKLES. Mr. Hayes?

Mr. HAYES. Yes.

Mr. LUCY. We were not aware that the panel structure would be used, so we will certainly try to adhere to the Chairman's rules and admonitions.

Senator NICKLES. Thank you.

Mr. Hayes, where are you from?

Mr. HAYES. Chicago.

Senator NICKLES. And, Mr. Sheffield, you are from New York?

Mr. SHEFFIELD. I am from Detroit, United Auto Workers.

Senator NICKLES. Detroit?

Mr. SHEFFIELD. Detroit, Mich.

Senator NICKLES. OK. Go ahead for 5 minutes, if you would.

Mr. LUCY. Let me say, Mr. Chairman, first of all that we are very pleased that we are being allowed to share our views with the committee.

I would like to begin by saying that the coalition believes that what we really should be discussing here is an increase in the minimum wage as opposed to a youth subminimum. Despite periodic increases in the minimum wage, in recent years its real value

has been rapidly eroded by inflation. I believe President Kirkland shared those views with you just a bit ago.

Congress established the minimum wage to set an income floor beneath which no one, male or female, black or white, young or old, should have to work. This income floor is absolutely necessary in low-wage sectors of the economy. Take the retail trade, for example. Individual store owners can only afford to pay moderately reasonable wages if they know that their competitors or competition must do the same. The minimum wage, in our opinion, is essential to insure that pay rates for store clerks, secretaries, and other similar workers are not driven down below a subsistence level. The protection of the minimum wage is especially important to minority workers who hold a large share of these jobs.

Some statistics over the last 12 to 15 years have indicated that some 70 percent of new jobs created have been in these service sectors, and I suspect that initiating a subminimum will simply compound the problem and establish a new type of worker within our economy. I think a subminimum youth wage would be a step backwards and could open the door wider for further wage discrimination against women and minorities.

We have been told that one of the main goals of a youth subminimum is to lower the unemployment rate for teenagers, especially those who are black. Certainly, this is a noble goal and the question becomes whether or not we actually have statistics to indicate that this action would support that.

I would take the opposite view. In fact, in terms of youth and teenage unemployment, all told, except in times of war or conflict, never has the rate been below 9 percent, and that is going back into the early years—

Senator NICKLES. Is that minority or all youth?

Mr. LUCY. All youth, and I suspect that the relationship between minority youth unemployment, maintaining the same ratio to all teenagers—that would be true for those times, and that particular period was the year 1951 during the Korean conflict.

It is our view that a 15-percent wage differential for youth is simply not large enough to convince the average employer to expand his or her work force. We believe that a shopowner who has enough employees to mind the store is not likely to add another employee simply because he can get one for \$2.85 an hour, or whatever the subminimum level would be.

We believe that a subminimum for all youth would encourage employers to replace particularly student employees, whom they are now taking advantage of in terms of the part-time rate for full-time students. I believe that this, coupled with the current administration proposal to either reduce or eliminate the student loan program, would make life difficult for thousands of young people who are using employment as a means of supplementing their student loan situation. To simply have employers replace part-time subminimum wage workers with full-time subminimum wage workers would work a hardship on this particular group.

Economists admit that they do not have much good evidence on the employment effects of a subminimum, but most of their studies show that a youth subminimum would cause almost no change in the rate of youth unemployment. One of the more recent studies

prepared for the Minimum Wage Study Commission found that a subminimum would push the teenage jobless rate down by only one-tenth of 1 percent. That, I suspect, squared off against the loss of purchasing power from low wages, might even cause a slight rise in unemployment.

Minority teenagers cannot afford, in our opinion, to take a 15-percent pay cut in a wage that is already below the poverty level. Many of them are female heads of households struggling to support their children.

If we look at the overall program of the administration, which I suspect will result, certainly, in some reductions in child care or day care programs, and if this is also coupled with a system that reduces the basic income of large numbers of female workers, it is a question of whether or not they will be either forced to use a greater portion of their income to support child care and day care, or they would simply be at such a wage level that they would simply go off of the job rolls and onto the public assistance rolls. We think that that is certainly not in the interests of the country as a whole.

The primary beneficiaries of this pay reduction would be the major employers of teenagers who, in our opinion, would reap some rather large windfall profits. A recent Dean, Witter, Reynolds report estimates that a subminimum would boost particularly McDonald's Corp. profits by 31 cents per share in the first year and 70 cents per share in 3 years. These higher profits would come directly out of the pockets of some of the Nation's lowest paid workers.

While business is pulling in higher profits, the biggest losers under a subminimum wage would probably be female and minority adults who now hold minimum wage jobs. Almost one—

Senator NICKLES. I have a question. Can I stop you right there because I want to ask you something on that and our time is moving?

I have been informed that we are going to have to clear this room by 1 for another committee, and there is another panel. I really want to come back to you with the questions, if I can.

[The prepared statement of Mr. Lucy follows:]

TESTIMONY BY
MR. WILLIAM LUCY, PRESIDENT
COALITION OF BLACK TRADE UNIONISTS

Mr. Chairman, members of the Committee, my name is William Lucy. I am Secretary-Treasurer of the American Federation of State, County and Municipal Employees (AFSCME) and President of the Coalition of Black Trade Unionists (CBTU). It is in this latter role that I am testifying today, although the views I will present also reflect those of AFSCME. CBTU consists of representatives of 67 national and international unions in this country. We appreciate the opportunity to explain why many blacks, and black trade unionists in particular, strongly oppose a subminimum wage for young people.

I would like to begin by saying that we really should be considering significant increases in the minimum wage for all workers instead of a youth subminimum wage. It is a tragedy that in our wealthy society millions of Americans who now work full-time at the minimum wage still find themselves living in poverty. Many families in this situation must even depend on AFDC to supplement their income.

Despite periodic increases in the minimum wage, in recent years its real value has been rapidly eroded by inflation. In terms of 1967 dollars the minimum wage will fall from \$1.42 in 1973 to about \$1.23 this year. A worker who earns the minimum wage has an annual income of only 75 percent of the federal government's poverty level for a family of four in 1981. This is down from 86 percent of the poverty level in 1967.

We would like to remind you that Congress established the minimum wage to set an income floor beneath which no one -- male or female, black or white, young or old -- should have to work. This protection is crucially important for men and women who are unskilled and without union representation to give them the ability to bargain on equal terms with their employers.

This income floor is absolutely necessary in low-wage sectors of the economy. Take retail trade for example. Individual store owners can only afford to pay moderately decent wages if they know that all their competitors must do the same. The minimum wage is essential to ensure that pay-rates for store clerks, secretaries and other similar workers are not driven below subsistence levels. The protection of the minimum wage is especially important to minority workers who hold a large share of these jobs.

In addition to providing an income floor, the minimum wage helps to maintain the principle of equal pay for equal work for American's low-wage employees. Unions, women, and minorities all agree on the importance of this principle. It has been the cornerstone of labor's fight against discrimination on the job. A subminimum youth wage would be a major step backwards and could well open the door to further wage discrimination against women and minorities.

We have been told that one of the main goals of a youth subminimum is to lower the unemployment rate for teenagers -- especially those who are black. Now this is surely a worthy objective on which we can all agree. No one would dispute the fact that this country has a major youth unemployment problem. Twenty-three percent of the 7.8 million people unemployed last month were teenagers. Black

teenage unemployment, at a staggering 35.4 percent, remained well above the white teenage unemployment rate of 17.4 percent. The question is whether a subminimum wage will really help the nation reduce youth joblessness and, if so, at whose expense.

A 15 percent or 25 percent wage differential for youth is very unlikely to convince the average employer to significantly expand his or her workforce. A shopowner who has enough employees to mind the store is not likely to add another worker just because he can get a young person for \$2.95 an hour. The few employers who care about such a small difference in wages are already taking advantage of the current subminimum wage for part-time workers who are also full-time students. A subminimum for all youth would encourage these employers to replace their student employees with a smaller number of full-time young workers. This would cut employment and make it harder for many young people to help put themselves through school.

At best, the economic evidence on the employment effects of a subminimum is mixed. Most studies show that a youth subminimum would cause almost no change in the rate of youth unemployment. One of the more recent studies prepared for the Minimum Wage Study Commission found that a subminimum would push the teenage jobless rate down by only one-tenth of one percent. The loss of purchasing power from lower wages might even cause a slight rise in unemployment.

Minority teenagers cannot afford to take a 15 or 25 percent pay cut in a wage that already is below poverty level, even for only

six months. Many of them are female heads of households struggling to support their children. The pay of many others is often an essential supplement to their parents' poverty-level income.

The primary beneficiaries of this pay reduction would be the major employers of teenagers who would reap large windfall profits. Dean Witter Reynolds estimates that a subminimum would boost McDonalds Corporation's profits by 31 cents per share in the first year and by 70 cents within three years. These higher profits would come out of the pockets of some of the nation's lowest-paid workers.

While business is pulling in higher profits, the biggest losers under a subminimum wage would probably be female and minority adults who now hold minimum-wage jobs. Almost one-fourth of minimum wage workers are members of minority groups; nearly two-thirds are women. A youth subminimum would hand employers a powerful financial incentive to layoff these workers and hire cheaper young people in their place. Adult women are likely to suffer particularly severe displacement, for studies show that teenagers and adult women are in fairly direct competition for the same minimum-wage positions. Because of the double-discrimination against black women, they are sure to be among the main victims of a youth subminimum wage.

Proposed prohibitions against displacement are unlikely to be enforced. Displacement of adults is prohibited under the current full-time student subminimum wage. Yet only twice in the past 20 years have cases been brought to enforce this provision of the law.

The Coalition of Black Trade Unionists strongly urges you to reject the idea that new jobs for youth should come at the expense of reduced employment of the neediest group of adult workers. We urge you instead to consider the real causes of teenage unemployment which are ignored by the advocates of the youth subminimum.

CSTU believes that population changes will take care of part of the youth unemployment problem. During the 1960s and 1970s the huge "baby boom" generation passed through its teens, swelling the youth labor force and boosting youth unemployment. Now, however, the number of young job-seekers is falling. Since we can expect to see a decline in teen joblessness over the next decade, it would be unwise to institute an unproven and potentially very harmful experiment.

A youth subminimum ignores the impact of the general economy on the unemployment of young people. Youth unemployment is much more responsive than adult unemployment to changes in the economy. During an economic upswing, employers hire hundreds of thousands of teenagers who previously could not find work. This fact shows that - when demand is high and the jobs exists - employers believe that young people are worth hiring at the minimum wage. A vigorous national economic program to achieve full employment would be a far more effective approach to the teenage unemployment problem than the uncertain approach of a youth subminimum wage.

Black teenagers face unique barriers to finding employment. Federal policies must address these problems.

Over the past 25 years, joblessness has risen several times more rapidly among black youth than among white youth. While white teenage unemployment increased five points (from 10.3 to 15.5 percent) between 1955 and 1980, the black youth joblessness jumped 23 points (from 15.8 to 38.6 percent). During this period, increases in the minimum wage rate and coverage affected both blacks and whites. Therefore, we have to look elsewhere for an explanation of why the unemployment situation for black youth has deteriorated so badly.

Part of the explanation is racial discrimination, which continues to fester in the job market despite decades of good federal intentions. Another important factor has been the shift of employment growth out of older cities to the suburbs and the Sun Belt. This shift has left many black teenagers stranded in central cities where there are fewer and fewer jobs and fewer education and training opportunities. It is to these social considerations and structural economic changes, and not to the minimum wage, that we must look for an explanation of the disturbing increase in black youth unemployment rates.

That is why we are so distressed at the President's proposals to gut the CETA Title IV Youth Employment and training programs and to eliminate all public service jobs. These programs are targeted specifically at the problems of the disadvantaged. The President's policy will put 127,000 disadvantaged young people out of work immediately. It will destroy the special focus on young people

contained in Title IV, which has received bi-partisan support in Congress and has proven to be so successful.

CBTU believes that it would be cruel and cynical to force disadvantaged young people into competition with their parents and friends for the reduced funds available under the CETA training programs. We believe it is cruel and cynical to layoff over 100,000 and, at the same time, express concern about youth unemployment.

The problem of youth joblessness can only be addressed by an economic program to achieve full employment combined with education, training and employment programs that enable disadvantaged young people to participate in the labor market on a more equal footing. It should not be addressed by a minimum wage policy that at most will simply redistribute poverty wages without any significant increase in job opportunities.

Thank you for giving us the opportunity to present our views.

Senator NICKLES. Mr. Chaikin, would you please go ahead just briefly, and then I have a question or two for you, too.

Mr. CHAIKIN. Yes, certainly. I thank you, Senator, for the opportunity to speak with you this morning, and I will take just a few moments since I have offered to the committee the full and complete statement which we would have wanted to make.

Senator NICKLES. We thank you for that.

Mr. CHAIKIN. My name is Sol C. Chaikin and I am president of the International Ladies' Garment Workers Union, with a membership of 340,000 workers on the mainland and in Puerto Rico. I am here to present the views of my union on the proposed youth subminimum amendments to the Fair Labor Standards Act. Since I have only a few moments in which to give these views, as I indicated, I would like to have included in the record the longer statement that we have prepared.

Senator NICKLES. We will.

Mr. CHAIKIN. These proposals we are discussing are called by titles like "The Youth Opportunity Wage Act" or "The Youth Employment Opportunity Act," the suggestion being that these bills will benefit the young. If the bills were really named after whom they will benefit, they would be called the "McDonald's Windfall Gift Amendments." [Laughter.]

Mr. CHAIKIN [continuing]. The arithmetic on these proposals is astounding. The McDonald's near the ILGWU headquarters is open 18 hours a day, 363 days a year. There are approximately 12 teenagers who work there at any given time and would lose, as a result of a 75-percent youth subminimum, 84 cents an hour each. In total wages, that single McDonald's would be saving \$10.88 an hour, \$181 a day, and \$65,862 a year.

The firm of Dean Witter, as my friend Bill Lucy has indicated, estimates that if that subminimum is passed, the stock would earn not less than 31 cents a share in the first year and much more as the years go forward.

Now, let us suppose that we pass a youth subminimum that would inhibit McDonald's or anyone else from hiring teenagers and fire 20-year-old people, and let us further suppose that the subminimum is limited to 6 months. In such entry-level, marginal jobs, there will be a natural turnover that runs, at least 30 percent per annum.

The company would profit. Who would suffer? All of the youth below 20 years of age, some of whom may already have 2 or 3 years of experience doing what they are doing, and who, for a period of 6 months, will be denied the traditional minimum; also, all of the people above 20 who are currently looking for work.

If two people apply for the same job and one of them is a teenager, the employer has a strong incentive to take on the youngster, which of course is just what these bills are intended to do. Perhaps the 1,610 million teenagers who are out of work will breathe a sigh of relief as they move to the front of the unemployment line, even if they have to sacrifice a decent, or more accurately, half decent hourly wage to do so. What the more than 6 million adult men and women who are currently employed—many of them

heads of households with families to support—will do if one of these proposals passes is another question.

Then there are all of the people who change jobs during the year. They too will face problems brought on by these bills when they have to compete against subminimum teenagers. I am speaking now about millions of people. In women's outerwear, the new-hire rate in 1979 was over 36 percent; in men's work clothing, the rate was 66 percent.

In the end, it is the country that will suffer. Not a single new job will have been created. We will have made it profitable for companies to hire those under 20 and to deny hiring those above 20. So, we will have redistributed unemployment.

In sum, this is a plan to redistribute unemployment and to redistribute income from workers who formerly got a minimum wage to corporations that will increase their profits. This is a perfect example of perverted priorities.

It is sometimes argued that there are certain jobs in this country that would spring into being in response to a youth subminimum. We doubt that there are any such jobs. As a rule, a company has a job opening to produce a product or render a service in response to a market demand. It then fills the job opening and is rarely deterred because of an 85-cent differential over 6 months.

But if there is some rare sort of job that will come into being if a youth subminimum were enacted, because it was in some sector of our economy that cannot afford to pay the minimum, then the 6-month limitation and the prohibition on firing and replacing at the end of 6 months would totally invalidate the argument that some subminimum sector of the economy would produce new jobs.

Senator NICKLES. Thank you.

Mr. CHAIKIN. At the end of 6 months, such an exotic sector would have to go out of business.

[The prepared statement of Mr. Chaikin follows:]

TESTIMONY OF SOL C. CHAIKIN, PRESIDENT
INTERNATIONAL LADIES' GARMENT WORKERS' UNION
BEFORE THE LABOR SUBCOMMITTEE
OF THE SENATE COMMITTEE ON LABOR AND HUMAN RESOURCES

MARCH 25, 1981

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The arithmetic on these proposals is astounding. The McDonald's near the ILGWU headquarters is open 18 hours a day, 363 days a year. The approximately 12 teenagers who work there at any given time would lose, as a result of a 75 percent youth subminimum, 84 cents an hour each. In total wages, that single McDonald's would be saving \$10.08 an hour, \$181.44 a day, \$65,862.72 a year. Multiply that by the 5000 McDonald's across the country and you discover that the McDonald's Corporation stands to gain roughly \$329 million. McDonald's shareholders get a break, too. The firm of Dean Witter estimates that if a youth subminimum is passed, the value of McDonald's stock will jump 31¢ a share.

Now let us suppose that we pass a youth subminimum that would inhibit McDonald's or anyone else from hiring teenagers to fire 20-year-old young people and let us further suppose that the subminimum is limited to six months. In such entry-level marginal jobs, there will be a natural turnover that runs at least about 30 percent per annum. Applying the same calculations we did before, the company's gain would be reduced to about \$80 million a year--still a tidy sum.

The company would profit. Who would suffer? All the youth below 20 years of age, some of whom may already have two or three years of experience doing what they are doing, who for a period of six months will be denied the traditional minimum.

Also, all of the people above 20 who are currently looking for work. If two people apply for the same job and one of them is a teenager, the employer has a strong incentive to take on the youngster--which, of course, is just what these bills are intended to do. Perhaps the 1,610,000 teenagers who are out of work will breathe a sigh of relief as they move to the front of the unemployment line, even if they have to sacrifice a decent (or, more accurately, half decent) hourly wage to do so. What the more than six million adult men and women who are currently unemployed--many of them heads of households with families to support--will do if one of these proposals passes is another question.

Then there are all of the people who change jobs during the year. They, too, will face problems brought on by these bills when they have to compete against subminimum teenagers. I am speaking now about millions of people:

in women's outerwear, the new hire rate in 1979 was over 36 percent; in men's work clothing, the rate was 66 percent.

In the end, it is the country that will suffer. Not a single new job will have been created. We will have made it profitable for companies to hire those under 20 and to deny hiring those above 20. So we will have redistributed unemployment.

In sum, this is a plan to redistribute unemployment and to redistribute income from workers who formerly got a minimum wage to corporations that will increase their profits. This is a perfect example of perverted priorities.

It is sometimes argued that there are certain jobs in this country that would spring into being in response to a youth subminimum. We doubt that there are any such jobs. As a rule, a company has a job opening to produce a product or render a service in response to a market demand. It then fills the job opening and is rarely deterred because of an 85¢ differential over six months.

But, if there is some rare sort of job that might come into being if a youth subminimum were enacted, because it was in some sector of our economy that can't afford to pay the minimum, then the six-month limitation and the prohibition on firing and replacing at the end of six months would totally invalidate the argument that some subminimum sector of the economy would produce new jobs. At the end of six months, such an exotic sector would have to go out of business.

But what about the "inexperienced" youth who does not earn his or her keep at first but who, after six months, will. There may be such cases: but they have nothing to do with age.

A sixty-five-year-old man, on retirement, may wish to pick up a few pennies doing some unskilled work, like running messages. He is "inexperienced" despite age.

On the other hand, there are 18-year-old youngsters who can show three or four years of experience running a short order stand. They are "experienced" despite age.

Laws are presently in force to allow a subminimum for people in a learner category. But to do it on an age basis is to institutionalize discrimination against the young--at their expense, at the expense of anyone who loses the opportunity for a job, at the expense of the country--for the benefit of corporations with high turnover rates of employment.

The effect of these bills is not to strengthen the economy of our country but to weaken the humaneness of our society. They are an opening salvo, a foot in the door, the first step in a process that will eventually undermine the entire minimum wage law. Today it is teenagers who need special exemptions. Who will it be tomorrow? The 20-24 year olds? Blacks? Hispanics? Women? Senior citizens? I can see a day when the protections of the law would be secondary, the exemptions primary, when we would find ourselves marching steadily backwards to the 19th century.

I oppose these measures because they are unworkable. I oppose them because they are unworkable. I also oppose them because the prospect they open up

for the working people of this country is unspeakable.

(Attached is a written statement expressing the views of the ILGWU on the general subject of the youth subminimum.)

TESTIMONY OF SOL C. CHAIKIN, PRESIDENT,
INTERNATIONAL LADIES' GARMENT WORKERS' UNION
BEFORE THE LABOR SUBCOMMITTEE
OF THE SENATE COMMITTEE ON LABOR AND HUMAN RESOURCES

MARCH 25, 1981

My name is Sol C. Chaikin and I am President of the International Ladies' Garment Workers' Union. I wish to present the views of my union on the subject of a youth subminimum.

As we see it, there are two fundamental issues in dispute in any discussion of a youth subminimum.

1. It is said that the minimum wage causes teenage unemployment. On this we disagree.

2. It is further said that the way to cope with that unemployment is through a youth subminimum. Again, we disagree.

To begin with the matter of youth unemployment, let me state at the outset that we in the ILGWU are as appalled by the disastrously high teenage unemployment rates as anyone in the country. How could we not be? Unemployment of any amount and within any subgroup of the population is a threat to all working people in the U.S. It is a constant drag on wages. Indeed, we could probably take but a few steps down the hall and run into an economist who would say that high unemployment is our most powerful weapon against inflation because it forces workers to temper their wage demands. Unions face no greater enemy than unemployment, and we are ready to support any measure that would genuinely serve to create more jobs. If we seriously believed that a youth subminimum would contribute to lowering unemployment among the young without--and this is

an important proviso--harming others in the process, we would be one hundred percent behind it. But rather than solving the youth unemployment problem, we believe a youth subminimum would merely shift the problem onto others. It is a device not for curing unemployment but for redistributing it.

Arthur Burns, former Chairman of the Federal Reserve, has written: "the unemployment of teenagers and women depends on a variety of factors--certainly on business conditions as well as on minimum wage.... It appears whether we consider the unemployment rates of teenagers, or that of women that its primary determinants are, first, the general state of the economy as indicated by the unemployment rate of adult males, second, the ratio of the minimum wage to the average in manufacturing."

If, following Burns, we take these two factors as the most significant, we see immediately that a youth subminimum will do nothing to help teenagers find jobs. The general state of the economy is bad, and the ratio of the minimum wage to the average in manufacturing has declined dramatically since the late '60s. In 1968, the minimum wage was 53.2 percent of the average manufacturing wage; in 1979, it was only 43.4 percent. At the same time, teenage unemployment has climbed. In 1968, the teenage unemployment rate was 12.7 percent; by 1979, teen unemployment was up to 16.1 percent. Where, then, is the reason to institute a youth subminimum?

These figures give us no cause to blame the high rate of joblessness among adolescents on the minimum wage. Far from rising when the minimum wage is strong, youth unemployment has increased when the impact of the wage became weak.

Or consider the enormous differences between white youth unemployment and black youth unemployment. While the figure for whites during the '70s has never reached 20 percent and has usually been several percentage points lower, the figure for black teenagers has been above 30 percent, and in some disastrous instances above 40 percent. If the minimum wage were a major cause of unemployment among the young, we would certainly expect the two groups to be much closer together.

Similarly, since 1948, there have been two times when the teenage unemployment rate reached new plateaus. In 1954 it rose from 7.6 percent to 12.6 percent and never declined to single digits again. And in 1970 it climbed from 12.2 percent to 15.2 percent, signaling the start of a dismal decade for the young when the unemployment rate never fell below 14 percent. Yet in neither of those years was the minimum wage law changed. In 1954 four years had passed since the minimum wage was last increased and the next increase was a year and a half away. The 1970 jump in unemployment came two years after the last minimum wage hike.

There are many more such examples that could be cited here. However, I would ask you to step back for a moment and look not at the statistics but at the political landscape of this issue. It is argued that a youth subminimum would help the working young, especially the children of disadvantaged minority and economic groups. Yet what do the leaders and representatives of those groups say? Do the spokesmen of workers support a youth subminimum? No.

Do the voices of the poor support a youth subminimum? No. Is Vernon Jordan speaking out of turn when, in his capacity as head of the Urban League, he stands foursquare behind minimum wage protections because he feels blacks are helped, not hurt? No. I think it is worth pausing over this peculiar fact: the youth subminimum is offered as a means of helping the disadvantaged, yet the very people who speak for those disadvantaged, who have devoted their lives to assisting the disadvantaged, who have the fullest understanding of the needy and the greatest commitment to their advancement, are deeply opposed to the proposal. On the other hand, those most ardently in favor of the subminimum-- I speak of certain economists, corporations and business organizations--can hardly be said to be the staunchest representatives of the unemployed young. Their dedications lie elsewhere.

To pursue their cause, the proponents of a youth subminimum are forced to ignore the most in-depth study ever undertaken by an agency of the U.S. government on the subject of teenage unemployment, the Department of Labor's 1970 investigation under then Secretary of Labor George Shultz. That study was initiated at the request of President Richard M. Nixon, who was himself a supporter of a youth subminimum, so that it cannot be accused of bias against the idea. What did this task force of economists, statisticians and Department professionals discover? Several things:

It found that the minimum wage had no clear effect on youth unemployment. Indeed, in one instance it reported that a 25 percent increase in the minimum

wage would decrease the unemployment rate. Shifts in business conditions, the task force said, were the most important factor causing adolescent unemployment. Here are some of the conclusions:

- * "In general, the most important factor explaining changes in teenage employment and unemployment has been general business conditions as measured by the adult unemployment rate. The role of other variables (such as the minimum wage or the increased numbers of teenagers in the work force) remain clouded by the interrelationships among them."

- * "If the minimum wage increases did indeed create unemployment among youth, the effect was not a pronounced one. Even when the analysis was focused on those subgroups of young men who might, on a priori grounds, be expected to be most vulnerable to the impact of the minimum wage, only a small number of such subgroups showed any evidence of adversity."

- * "On the basis of State experience, lower minimum wage rates for youth than for adults do not resolve the paradox of high youth unemployment in an inflationary economy characterized by high wages and tight labor markets."

- * "A demonstrable relationship exists between minimum wages and youth unemployment rates if other variables are excluded from the analysis, but when other variables such as population and school enrollment changes are taken into account, the effect of changes in the minimum wage upon teenage unemployment becomes obscure."

When the findings of the Labor Department task force are added to 30 years of government experience in surveying the impact of the minimum wage and the repeated and consistent statements of Secretaries of Labor, both Democratic and Republican, who have been charged with the responsibility of

overseeing the law, the case against the youth subminimum becomes irrefutable. Allow me to recall for you some of this longstanding, bipartisan and overwhelming testimony in support of the Fair Labor Standards Act.

I begin with 1950, the year after the FLSA was first improved and the minimum wage raised to \$0.75 from the Depression-level figure of \$0.40. Reporting on the effects of the increase, the Secretary of Labor under Truman stated: "Though causing significant payroll increases, the 75-cent rate had only very minor determinable effects on employment and other non-wage variables in the five low-wage manufacturing industries surveyed."

The minimum wage went up again in 1956, and that year total employment increased by 1.6 million. The Eisenhower Department of Labor surveyed seven low-wage areas to determine the effects of the wage rise, and reported: "Few employers in subject industries indicated that they found it necessary to discharge workers in adjusting to the higher federal minimum."

In 1961, the minimum wage went up again, and coverage was extended. Once more, employment increased, and once more a Secretary of Labor, this time under John F. Kennedy, reported no significant unemployment effect: "The 1961 minimum wage increase had no discernible effect on the nation-wide level of employment in the industries affected. On an overall basis employment has risen in these industries since the 1961 amendments took effect."

Five years later, Lyndon Johnson's Secretary of Labor surveyed the effects of changes in the law and concluded: "The record is that following the original establishment of the 40 cent hourly rate in 1938, after it was set at 25 cents

in 1938, 30 cents in 1939, 40 cents in 1944, to \$1 in 1956, employment in the United States always went up." What is more, he found that employment "usually went up more in the lower paid occupations most directly affected by the statutory requirement than in other occupations." The conclusion was unequivocal: "There is clearly no evidence in the 28 years of experience of unemployment resulting from statutory minimum wage rate increases."

The substance of the Secretary of Labor reports changed not one whit after Richard M. Nixon became president. In 1970, when George Shultz was head of the Labor Department, he reported: "Employment rose in all major non-agricultural industry divisions in the 12-month period between September 1968 and September 1969. In the retail, services and state and local government sectors--where the minimum wage had its greatest impact in 1969, since only newly covered workers were slated for federal minimum wage increases--employment rose substantially."

The Department of Labor's in-depth examination of youth unemployment was published at this time and was reflected in the 1971 report of a new Secretary of Labor: "A comprehensive study of the relationship between youth unemployment and minimum wages...provides information useful in evaluating the teenage unemployment problem. A significant finding was that it was difficult to prove any direct relationship between minimum wages and employment effects on young workers."

The 1971 report also commented on recent conditions: "Although the economic indicators just noted increased at a fairly rapid rate in the year in which the federal minimum wage for the newly covered group was raised 15 cents, it is

significant that employment in retail trade and services--the industries where the newly covered group is largely concentrated and hence most likely to manifest some impact from the wage increase--fared better than industries unaffected by the statutory escalation in the minimum wage." The Secretary concluded: "In view of overall economic trends, it is doubtful whether changes in the minimum had any substantial impact on wage, price or employment trends. Of much greater significance, however, is the fact that the 15-cent boost did help 2 million workers recover some of the purchasing power eroded by the steady upward movement of prices which had started even before the enactment of the 1966 amendments."

1972? The same story: "On balance, the wage increases granted to 1.6 million workers to meet the \$1.60 minimum wage standard had no discernible adverse effect on overall wage or price trends."

The year 1974, which saw major changes in the minimum wage law, was complicated by the onset of deep recession. Nonetheless, Gerald Ford's Secretary of Labor reported in 1975 that "the higher teenage unemployment rate from 1970 through 1974 was associated more with a higher level of overall unemployment in the economy than with a widening gap between teenage and overall unemployment." As for the sectors affected by the FLSA, "the low-wage manufacturing industries registered large April to June increases in hourly earnings and average weekly hours in 1974 (when the new minimum became effective) and modest increases in employment relative to prior years." Moreover, "since the South is the region in which the impact of the Federal minimum wage is generally the largest, it is

frequently the focal point of research on minimum wage effects. Relative to other regions, however, the South showed no unusual change in total nonagricultural employment during the spring of 1974, when the new Federal minimum became effective."

Finally, Jimmy Carter's Secretary of Labor has followed the tradition of those before him--and in 1979 summed up the status of the minimum wage: "Over these past 40 years, the concept as well as the fact of a Federal minimum wage has frequently generated much controversy, both in a political and economic sense. I believe the minimum wage represents a legitimate responsibility of the government in addressing the needs of largely unaffiliated workers who are not in a position to bargain for themselves. Minimum wage issues, however, are again moving to the forefront in relation to the inflationary pressures our economy is experiencing. This is indicated by suggestions that the minimum wage increases provided by the 1977 amendments should be delayed or that a special subminimum wage rate for youth should be instituted. The \$3.10 minimum effective January 1, 1980, is an increase of only 6.9 percent over the present \$2.90 minimum, and the \$3.35 minimum, effective one year later, is an increase of 8.1 percent over the \$3.10 minimum. This Administration has decided that workers earning less than \$4.00 an hour should not be asked to shoulder an unfair burden of the fight against inflation, and has provided an exemption for such workers in the anti-inflation program. I am also opposed to a youth subminimum because, rather than alleviating the overall level of unemployment, it would result in the substitution of adult unemployment including working mothers,

female heads of households, and unskilled minority workers for youth unemployment. The way to improve the capabilities of our young workers is to provide proper training for better paying jobs."

I ask you now: Should we disregard all of this testimony? Should we decide that the minimum wage causes unemployment even when the hard empirical evidence is all to the contrary? Should we institute a proposal that has the potential to undermine the livelihoods of millions of people wholly dependent on the present minimum wage? I want to talk specifically about the possible damage to those people, but before I do, I think it is important to examine one more study on the youth subminimum, one that may have had an undue influence on this discussion. I refer to a study entitled "Youth and Minority Unemployment" by Professor Walter E. Williams that was done for the Republican members of the Joint Economic Committee in 1977.

Williams is a strong proponent of a youth subminimum. In his study, he attempted to trace the impact of the minimum wage on teenage unemployment by a deceptively simple method: he examined the ratio of teenage to adult unemployment from 1948 to 1976 and concluded that "with increases in the Federal minimum wage the teenage unemployment rate relative to adult unemployment usually rises, i. e., the ratio increased (with the exception of 1956, 1968 and 1973). In each year, except 1956, 1968 and 1973, adult unemployment declined relative to that of teenagers following an increase in the Federal minimum." Thus, he concludes that minimum wage increases place disproportionate burdens on the young. This seems to contradict the consistent findings of the Department of Labor.

Yet if we look closely, we see that Williams is measuring not the effect of the minimum wage on teenage or general unemployment, but on something quite different, the relationship between teen and adult unemployment. By this measure, even if teen and adult unemployment both fall following a minimum wage rise so that both groups benefit but adult unemployment falls faster, the relationship between teen and adult unemployment will get worse. Surely, it is wrong to suggest the condition of teenage workers is worsening when their unemployment rate may be falling.

In fact, there is a relationship between the minimum wage and teen unemployment, and it can be discovered by looking directly at the impact of one on the other. From 1948 to 1980, there have been 12 improvements in the minimum wage. If one compares the teenage unemployment rate for the 12-month period following each of these increases with the same rate for the prior year, the results conflict wholly with the views of the proponents of a subminimum: in seven out of 12 comparisons, teenage unemployment declined following increases in the minimum. Three of the five years in which teen unemployment rose--1974, 1975 and 1980--were years when general business conditions were poor. In 1963 and 1967, the remaining years when teenage unemployment increased, the economy grew at a lesser rate than in either previous year. These findings substantiate the conclusions of the Nixon/Shultz task force which found overall business conditions to be the primary cause of youth unemployment.

I said at the start that there were two issues raised by the subminimum

proposal--the first was the impact of the minimum wage on employment, the second was whether a subminimum will solve the problem of high youth unemployment. I declared earlier that a subminimum was not the way to deal with teenage joblessness, but do not be misled: I have no doubt that if we concentrated our efforts on nothing but jobs for the young, we could solve the problem overnight. We could eliminate the minimum wage for everyone under 20 and raise the minimum wage for everyone else to \$10 an hour. I can guarantee you that no young person would then have trouble finding a job because employers would be eager to substitute them for higher priced adult workers. For the same reason, I have no doubt that in the short run at least more teenagers will find work than are currently employed if a youth subminimum is instituted. The key question, however, is how many adults will be displaced to make room for the lower-wage teens. Ray Marshall, for one, has stated that "there is no evidence that adults are either more or less productive than young people; and, if employers can hire younger persons at lower wages than older persons would have to be paid, they would do so. The self-defeating results of such actions are obvious."

Not surprisingly, the proponents of a subminimum shy away from addressing this problem. They may be quite adept at explaining what is good about their proposal, but they are much less articulate when it comes to describing what is bad about it. They can construct all kinds of theoretical models to show how many teenagers are supposedly thrown out of work by the minimum wage, but where are the models showing how many adults would be thrown out of work by a

subminimum wage? At most, an acknowledgement that there would be substitution is hinted at.

Thus, Edward Gramlich an influential supporter of a subminimum has said: "It seems eminently feasible to introduce (a subminimum) gradually, monitoring the internal substitution and stopping when and if adult displacement becomes too great." (I wonder what he means by "too great.")

And Walter Williams has stated: "All things being equal, if a company has to pay the minimum wage for a job, it will prefer an adult with job experience to a teenager without experience. A subminimum wage would even the scales somewhat."

As a spokesman for working people, as a lifelong trade unionist, and as an American citizen concerned about the welfare of my country, I utterly reject this kind of approach. To think of trading adult unemployment off against teen unemployment is to think no longer of people, of flesh-and-blood human beings, but merely of numbers. By no means can adults be so simply equated with adolescents. How many adults forced out of work by a youth subminimum are heads of families? How many are the sole breadwinners in their households? How many would be forced on welfare? How many of the teenagers who would get the jobs are from families in need? How many from middle-class families? How many are white and how many are black? No one knows the answers to these questions, but we do know one thing for certain: the potential damage from a subminimum to adult workers now employed at low wages is enormous. Knowing this, I cannot sit by without expressing my opposition to any subminimum proposal.

At the present time, about five million workers in the United States earn the minimum wage. Many, many millions more are covered by the minimum wage law, but approximately five million of those who are covered actually

work at the minimum, and depend upon the law. Since most of these people do not belong to unions, the law is the only protection they have.

Other low-wage workers are only slightly above the minimum. Altogether, one-fourth of the labor force, over 25 million people are at or near the minimum wage level. Only 30 percent of these are teenagers; the rest are adults--20 percent men, 50 percent women. About one-quarter, seven and a half million, are heads of households. These are the people who are threatened by a youth subminimum. These are the people I am speaking for.

But I am speaking for the teenagers, too, those who would have to take an immediate drop in pay at a time when inflation is raging and everyone else's wages are going up. Many of them--once again, no one knows how many--make critically important contributions to their families' incomes. They, and their families, will simply have to suffer the drop and find ways to make do with less out of what is already too little.

Others will have a choice available to them: they can decide to stay at their jobs, doing the same work but earning less money, or they can choose to take their chances "on the street." According to the New York Times, an average mugger can make \$200 a night, tax free, in what might be called a relatively low-risk job. That kind of choice is much more a possibility to a teenager than to an adult, but is a cost that should be calculated when we try to assess the damage from a youth subminimum. More jobs might be available to teenagers at lower pay. How many of them would decide there were better opportunities elsewhere?

One of the main problems we have with teenagers from low-income families is how to lure them into the workforce and steady employment and away from the temptations they see around them every day. A subminimum moves us in the opposite direction, discouraging some teenagers from the start, setting up a revolving door for others who will be hired at the lower wage and fired when they reach twenty. They will be given jobs that have been segregated off as dead-end, no-advancement slots, work that is assigned with the full expectation that when the worker reaches the retirement age of 20, someone else will be coming along to fill the place.

Lower wages are no solution to teenage unemployment. But, fortunately, alternatives do exist, alternatives that do not require us to make a choice between jobs for teenagers and jobs for adults. The key, as so many studies tell us, is to accelerate the general level of business activity, in particular the small business sector where so many teenagers and other low-income people find work. One step is to bring down interest rates for small business. In addition, low-interest loan guarantees targeted to small business would help the job-creating sector of the economy to grow. And if those guarantees were targeted to inner cities, they would be especially worthwhile.

But no less important is the need for government-funded training programs geared to the special needs of younger workers. These programs should include basic academic skills such as reading and arithmetic, but should emphasize vocational education. Such training would increase the productivity of young workers, making them more attractive to employers. Training

should be targeted to industries with growing employment needs.

Moreover, the cost of such training and low-interest loan guarantees would be more than offset by the effects of such programs. The expansion in the small business sector, which would be made possible, would increase tax revenues at the Federal, state and local levels. The elimination of the incentive to lay off adult workers would save the expenditure for unemployment and welfare benefits that experienced adult workers are entitled to. Training would provide teenagers with skills which would allow them to be employed more steadily and at better wages. This, in turn, would increase their contributions as taxpayers.

The net result of this approach would be to strengthen the small business sector while providing young workers with career skills and a better opportunity for well-paid, steady employment. A youth subminimum, on the other hand, would lead teenagers to learn only those skills associated with subminimum jobs. After three and a half years of sweeping floors at subminimum pay, a teenager would be sent out into the world with no reason for hope and no expectation for betterment. Surely we can do better than that.

Senator NICKLES. Thank you very much.

Our next guest is Althea Simmons, and your home is in Washington?

Ms. SIMMONS. I am the chief lobbyist for the NAACP.

Senator NICKLES. Very good. We appreciate your testimony; thank you very much.

Ms. SIMMONS. Thank you so much, Mr. Chairman, for allowing us to testify. I am Althea T. L. Simmons, the director of the Washington Bureau of the NAACP.

I appear here today on behalf of the more than half million members in our 1,800 local communities, and some 600 youth and college chapters across the country, where we have more than 500,000 members.

The economic report of the President for 1980 showed that the black unemployment rate was 11.3 percent, compared to 5.1 percent for the Nation, with black youth unemployment at 36.1 percent. The median income for black families, which had risen to 62 percent of that of whites in 1975, decreased to 57 percent in 1979, and the gap is widening.

If the 1979 black unemployment rate were reduced to the 5.1 percent rate experienced by whites, 677,000 jobs for blacks would have been added. Blacks, as a proportion of their own population, are more likely to be working at or below the minimum wage, despite the fact that three-quarters of all low-wage workers are white. Nearly one out of every five blacks work for \$3.10 per hour or less.

Black teenagers have fallen behind their white counterparts in private employment. A 16- to 17-year-old male in 1954 had the same probability of being employed as a white youth of the same age. However, that has deteriorated in 1979 to only 45 percent.

Mr. Chairman, a subminimum wage would provide black youth an opportunity to be further discriminated against. The NAACP does not believe that youth, the target of the wage differential, employed at a subminimum wage will receive the kind of skill and/or training to prepare them for upward mobility or permanent job opportunity. The bulk of such jobs will be in industries where minimal training is offered and minimal skill is required.

The subminimum wage would have a disparate impact on black youth. Black youth right now suffer from racial discrimination in the work force. They would have a reduced chance of being hired inasmuch as business and industry is moving to the suburbs. That would be compounded by the fact that the lowered wage would result in decreased purchasing power and a lower standard of living, which runs counter to the legislative intent of the Fair Labor Standards Act, which calls for a wage consistent with a minimum standard of living for all workers.

One out of five blacks work at the minimum wage, and many black teenagers who find employment must use their earnings to help supplement the basic family income of low-wage-earning parents. The post-war teenage boom has glutted the market, and this is exacerbated by the fact that many youths are dropouts or push-outs from the school system. The price of a quart of milk, a loaf of bread, or a pair of blue jeans is the same whether the purchaser is

unemployed, a teenager, a low-wage-earning adult, or a part of middle management.

Mr. Chairman, we believe that there is no evidence that blacks and other minority youth would be the beneficiaries of a wage differential, since there is rampant discrimination on the basis of race in hiring patterns even in the fast food industry in this country.

The group with the most to gain, we believe, is the employer who could make high profits as a result of cheap labor. We submit that the enthusiasm to enact subminimum wage legislation is a forerunner of attempts in the future, I believe, to do away with the minimum wage.

Blacks know what it is like to be exploited, to be unhired, and to be denied opportunity. You have heard persons testify with reference to what the minimum wage is worth today. For those persons who believe that black teenagers work for pin money or pocket change, we suggest as a demonstration that they just "walk a mile in the shoes" of the have-nots who must make every penny count in order to survive.

[The prepared statement of Ms. Simmons follows:]

STATEMENT OF

ALTHEA T. L. SIMMONS

DIRECTOR, WASHINGTON BUREAU

NATIONAL ASSOCIATION FOR THE ADVANCEMENT OF COLORED PEOPLE

Mr. Chairman and members of the Subcommittee, I am Althea T. L. Simmons, Director of the Washington Bureau of the National Association for the Advancement of Colored People. The NAACP appreciates being afforded this opportunity to be heard.

I appear here today on behalf of the more than 1800 local branches, some 600 youth and college chapters and 38 state and area conferences of the NAACP and millions of others in the black community who have a vital interest in the subject matter of these hearings.

As these hearings are in progress, black Americans who are unemployed or marginally employed are keenly aware of the dual and unequal economic system in our country because of the growing discrepancy between the average income of blacks and whites.

The 1980 Economic Report of the President showed the black unemployment rate to be 11.3 percent as compared to 5.1 percent for the nation, with black youth unemployment at 30 percent plus. The median income for black families, which had risen to 62 percent of that of whites in 1975 decreased to 57 percent in 1979 and the gap is widening. The number of black families in poverty in 1979 was 30.9 percent - over 3.5 times the percentage of whites. 43 percent of black Americans have incomes under \$10,000 as compared with 18 percent of white families.

Growth is a necessary condition for the economic well-being of blacks in that the economic improvement of blacks depends on expanding economic activity which provides more jobs. The latest available statistics show that black employment increases more rapidly than whites in periods of expansion and declines more rapidly than white employment in periods of recession. For example, in the recession of 1958, black employment declined by 3 percent while white employment declined by half as much - 1.5 percent. Conversely, during the expansion of 1965, black employment increased by 3.5% and white rose by only 2.5% (Table 1).

TABLE I: ECONOMIC GROWTH AND EMPLOYMENT
(percent change from the preceding year)

Year	Real GNP (1972 dollars)	Employment	
		Black	White
55	6.70	3.11	3.48
56	2.14	3.06	2.56
57	1.81	1.29	0.33
58	-0.21	-2.98	-1.46
59	6.02	3.15	2.46
60	2.28	4.57	1.46
61	2.51	-1.37	0.11
62	5.80	2.52	1.33
63	3.95	1.94	1.55
64	5.26	3.40	2.14
65	5.89	3.52	2.46
66	5.95	3.04	2.48
67	2.72	1.73	2.06
68	4.38	1.97	2.09
69	2.57	2.63	2.61
70	-0.32	0.73	0.96
71	2.99	-0.50	0.76
72	5.74	2.68	3.33
73	5.46	5.83	3.02
74	-1.39	2.03	1.78
75	-1.27	-2.64	-1.18
76	5.88	4.34	3.05
77	5.30	3.68	3.48
78	4.38	7.39	3.84
79	2.28	3.63	2.61
80	-0.20	-1.90	-1.70

Source: Economic Report of the President, 1981. Bureau of Labor Statistics, Department of Labor.

Prepared by: the Economic Analysis Unit, NAACP

There was an average difference of 3.2 percent in the black unemployment rate between the peaks and troughs of the business cycle - about 350,000 jobs for blacks (Table 2). Despite this general secular increase in economic growth, there remains unavoidable fluctuations due to periods of particularly fast growth and periods of slow growth or of an actual decline in output. These business cycles mean that provision will always have to be made to supply the necessities of life for those who are not able to provide for themselves due to unavoidable and inadvertent unemployment.

In 1969, at the end of the longest period of economic growth, black unemployment was reduced to 6.4 percent which was higher than the 6.1 percent unemployment rate of whites during the previous recession of 1958. If the 1979 black unemployment rate were reduced to the 5.1% rate experienced by whites, 677,000 jobs for blacks would have been added. These statistics serve to emphasize another point - that even when high levels of economic growth are attained, additional efforts must be made so that blacks can fully participate in the benefits of such growth.

Blacks as a proportion of their own population are more likely to be working at or below the minimum wage despite the fact that three-quarters of all low wage workers are white. Nearly 1 out of every 5 blacks work for \$3.10 an hour or less.

Black teenagers have rapidly fallen behind their white counterparts in private employment. A 16 to 17 year-old male in 1954 had the same probability of being employed as a white youth of the same age; however, that probability has steadily deteriorated to only 45 percent in 1979. Expressed another way, white 16 to 17 year old males have been able to increase their employment from 40.8 percent of their age group in 1954 to 46.1 percent in 1979 while blacks' employment has declined from 40.4 percent to 20.7 percent over the same period.

Table 2: Unemployment and Poverty

	1953	1954	1956	1958	1969	1970	1973	1975	1979	
	peak	trough	peak	trough	peak	trough	peak	trough	peak	
Total black and other unemployment rate	4.5	9.9	8.3	12.6	6.4	8.2	8.9	13.9	11.3	
Total white unemployment rate	2.7	5.0	3.6	6.1	3.1	4.5	4.3	7.8	5.1	
Ratio	1.7	2.0	2.3	2.1	2.1	1.8	2.1	1.8	2.2	
% of blacks in poverty	NA	NA	NA	NA	32.2	33.5	31.4	31.3	30.9	
% of whites in poverty	NA	NA	NA	NA	9.5	9.9	8.4	9.7	8.9	
Ratio	NA	NA	NA	NA	3.4	3.4	3.7	3.2	3.5	

Sources: unemployment rates are from Economic Report of the President, 1980. Poverty information is from The Social and Economic Status of the Black Population. Bureau of the Census, 1979, and records of the Department of Census.

prepared by the Economic Analysis Unit, NAACP. 11/19/80

A black teenager's poor employment prospects is undoubtedly a contributing factor to the declining labor force participation rates (which are expressed as a fraction of those seeking work) for black teenagers while the participation rates for white teenagers is growing. The white 16 to 17 year old unemployment rate has increased; however, that may not be as bad as it seems at first blush, because a part of that increase stems from the healthy process of attracting more white youths into the market as shown by their growing participation rate. On the other hand, the black unemployment rate is worse than it appears because it is rising in the face of declining participation and for that reason understates the extent of unemployment.

18 to 19 year old teenagers have a similar experience. Their employment prospects (black) have dwindled since 1954, when 8% more black than white 18 to 19 year old youths were working, until they are only 62 percent of a white youths changes of employment.

Mr. Chairman, it is the NAACP's position that the economic improvement of blacks depend on expanding economic activity which provides more jobs at decent wages. The problems of the poor and near poor (many of whom are black) is that the costs they incur are certain and immediate and are directed at benefits designed to offset the unemployment being generated by a policy of intentional high unemployment while the benefits accrue in the future as a result of doubtful supply side economic assumptions that new jobs will be produced from productive investments.

The NAACP does not believe that youth, the ostensible target of the wage differential, employed at a subminimal wage will receive the kind of skill and/or training which will prepare them for upward mobility in the workforce. The bulk of such jobs will be in industries where minimal training is offered and minimal skill is required.

A subminimum wage would have a disparate impact on black youth. Black youth, already suffering from racial discrimination in the workforce, would probably have a reduced chance of being hired inasmuch as business and industry is moving to the suburbs. This would be compounded by the fact that the lowered wage would result in decreased purchasing power and a substantially lowered standard of living which runs counter to the legislative intent of the Fair Labor Standards Act which calls for a minimum wage consistent with a minimum standard of living for all workers.

One (1) out of 5 blacks work at the minimum wage and many black teenagers who find employment use their earnings to help supplement the basic family income of low-wage earning parents. (The post war teen age boom has glutted the market and this is exacerbated by the fact that many youths are dropouts or push-outs from the school system). The price of a quart of milk, a loaf of bread or a pair of blue jeans is the same whether the purchaser is unemployed, a teenager, a low wage earning adult or a part of middle management.

A Labor Department study of utilization patterns of the youth differential revealed that a majority of the firms receiving exemption certificates failed to use all of them because they were either fully staffed, could not find youth to work at the lowered wage or were dissatisfied with the youth employed and terminated them.

Mr. Chairman, another factor to be considered is that there is no evidence to lead us to believe that black and other minority youth would be the beneficiaries of a subminimal wage since there is rampant discrimination on the basis of race in hiring patterns in the private sector under the current law. The group with the most to gain from a youth differential is the employer who could make high profits as a result of "cheap labor". We submit, Mr. Chairman and members of the subcommittee that the enthusiasm to enact subminimum wage legislation is a forerunner of attempts in the future to do away with the minimum wage.

Mr. Chairman, I am sure that the persons who have testified before me have made the point, that I will underscore here, that by January, 1981, the minimum wage was worth \$1.27 an hour even though it had gone up \$.25 on January 1 to \$3.35. Economists say that a \$3.75 minimum wage was needed as of January, 1981 to have the same purchasing power as the February, 1967 \$1.40 minimum wage. The current minimum wage rate of \$3.35 is 78% of the \$4.27 hourly equivalent of the January 1981 poverty line. In affluent America, we can ill afford to advocate wage discrimination against the future leaders of our country.

For those who believe that teenagers work for "pin money" or pocket change, we suggest that they, as a demonstration, "walk a mile in the shoes" of the have-nots who must make every penny count to survive.

Mr. Chairman, the NAACP is convinced that the employment focus for 1981 must be on implementation of the Humphrey-Hawkins Full Employment and Balanced Growth Act rather than on wage discrimination. A youth differential presumes that the value of an individual's work contribution is determined by his/her age alone. We reject that presumption.

The NAACP at its 70th Annual National Convention in 1978 adopted the following resolution:

"MINIMUM WAGE AND FAIR LABOR STANDARDS ACT

WHEREAS, there are several concerted efforts presently underway to create and establish a subminimal wage for youth; and,

WHEREAS, the NAACP decries any attempts at the creation of a subminimum wage for youth and vigorously reaffirms its position in support of the Fair Labor Standards Act;

BE IT RESOLVED THAT we call upon the National Office and all of its units to use its resources to ensure that any attempts to create a subminimum wage for youth are fruitless."

CONCLUSION

The NAACP submits that the enactment of a youth wage differential will erode the already minimal standard of living for black Americans; will exploit teenagers in the workplace; will not create jobs; will increase employer profits at the expense of the young worker; will not benefit to a great extent black and other minority Americans who are the highest unemployed in the youth work force; will displace adult workers and will be a first step in undermining the minimum wage.

I wish to thank the Committee for allowing us an opportunity to present our views.

Senator NICKLES. Thank you.

Ms. SIMMONS. We are convinced that the employment focus for 1981 must be on implementation of the Humphrey-Hawkins Full Employment and Balanced Growth Act rather than on wage discrimination, because a youth differential presumes that the value of an individual's work contribution is determined by his or her age alone, and that is a presumption, Mr. Chairman, that we reject.

Senator NICKLES. Let me ask some very quick questions. If we run too long, we are not going to have time for our next panel, and that would not be fair.

Mr. Chaikin, let me ask you a question first. You made the statement that in your opinion, if we exempted teenagers from the minimum wage, we would not create a single job.

Mr. CHAIKIN. That is right. For 41 years since I left school, I have been in the industrial environment of the United States. I lived in Massachusetts for many years, and in New York City, and in Texas; I worked in Louisiana and Arkansas. I have never met one employer who hired a worker when there was no work for that worker. I have never met an employer who hired people just to sit around and look pretty.

If a worker is hired, whether that worker be a teenager or not, \$3.35, with today's standard and cost of living, is little enough. There would just be job substitution. Now, in our factories around the country—and they are located in 38 States and more—ours is a highly competitive industry, the manufacture of apparel and clothing, and it is a highly labor-intensive industry where—

Senator NICKLES. Do they pay the minimum wage in your industry?

Mr. CHAIKIN. They pay more than the minimum wage.

Senator NICKLES. Is anybody paid minimum wage?

Mr. CHAIKIN. Oh, yes; new entrants into the factory are paid minimum wage.

Senator NICKLES. What percentage?

Mr. CHAIKIN. New workers can be, in the course of a year, with the turnover that we have, as much as 20 to 30 percent of the complement of a factory. The minimum wage is paid for the first month and then they start going up the scale.

Senator NICKLES. OK, you answered my question. You said that you did not think that one single job would be created.

Mr. CHAIKIN. Not one single job in the industrial or commercial—

Senator NICKLES. I am not just talking about that. I am talking about a lot of people that are employed, period, and trying to get them into the employment cycle. We have had some testimony from people who have lived in the suburbs and who have radically high unemployment, and they say that a lot of individuals are being priced out of the job market.

You have answered my question. Let me move on to our other two guests real quickly. I want to read something that I ran into last night. I share your concerns about the unemployed black people and I share your concerns about the unemployed young people who cannot get a job.

My bill would exempt persons who are 16 or 17. It is not so much what they will be making at 16 or 17 that is important to me. It is the fact that they will be getting involved in the system, where they will obtain some skills and where they can make minimum wage when they are 19 and more than minimum wage when they are 20 or 30 or 40, and actually climbing up that economic ladder. That is my belief.

Let me read something to you that comes from a person that I think has a considerable amount of respect nationwide. I have to scoot, but this is really pertinent to what we are all trying to do. He says that in fact, minimum wages hurt low-income people, and the source of this is Milton Friedman. (Laughter.)

The minimum wage requires employers to discriminate against persons with low skills. The high rate of unemployment among teenagers, especially black teenagers, is both a scandal and a serious source of social unrest, largely as a result of minimum wage laws.

He even goes a bit further and says,

We regard the minimum wage law as one of the most, if not the most, anti-black laws on the statute books. It penalizes them by preventing them from offering to work for low jobs as a means for inducing employers to give them on-the-job training.

I hear where you are coming from. I know what it costs to live. I used to work for less than the minimum wage and I want to help those people. Mr. Lucy, you, Althea, and Sol are all trying to help.

I think it is very, very important that we get people involved into the system so that they can pull themselves up. I think that work is the key.

Excuse me for rambling; I am not here to make speeches. I am here to hear your testimony, and I apologize. Althea, I did not have your testimony last night and did not get to read it. I will read it indepth; you had some very interesting statistics.

I want you to know, too, that we are open and do want to receive your input.

Mr. Lucy. Let me just make one point about Mr. Friedman, and I would suspect that most economists who study Mr. Friedman would say the same thing. But it sort of turns a blind eye to the fact that black teenage employment really stems from the kind of systemic discrimination that has been forced upon not only black teenagers, but black adults over the years.

Ms. SIMMONS. That is right.

Mr. LUCY. Let me also make the point that it was through governmental action that the minimum wage was instituted in the first place.

Senator NICKLES. That is correct.

Mr. LUCY. It was not because of corporate concern or business concern that they initiated this as a means of assisting workers in terms of their seeking a higher standard of living.

I agree with Sol that you are not going to create any jobs by virtue of the subminimum. People will simply fill some jobs that need to be filled right now. You will not increase anyone's perception of their own basic worth by allowing them the opportunity to work for a subminimum wage or a subpoverty level wage.

Senator NICKLES. I would argue with that, and I am looking at my own personal experience. I used to work for 25 cents an hour.

Mr. LUCY. Well, so did a lot of other people.

Senator NICKLES. That totals \$10 a week, and I was proud because nobody else my age worked and made that \$10.

Mr. LUCY. That was when \$10 was worth \$9.50.

Senator NICKLES. Yes, just about.

Mr. CHAIKIN. Let me just make one comment.

Senator NICKLES. Quickly, please.

Mr. CHAIKIN. Let me suggest that I worked for 15 cents an hour while I went to school, and I would have been happy to work for 10 if I could have gotten the job. That is considerably less than the \$10 for which you worked. But that was before there was a Federal national minimum wage, and that was when there was a free market. That was when there was no mutuality between an employee who had a job and the thousands of people who are looking for work.

Second, I just would like to say this. There is no reason and no rationale for this amendment. Today, under the law, there is a legal subminimum. Today, in our industry, when employers want to train workers, they have an opportunity to apply for that exemption. They get a learner's certificate and they train the workers for the amount of time that would be necessary—below 6 months in which to train them, and occasionally up to 6 months.

Second, all teenagers who are at school have an opportunity to work, also, for a subminimum, which is 85 percent of the legal wage. And there is no such thing as being drowned in redtape in order to get it, because those of our employers who want to expand their employment and who would like to get new workers in do apply and do get it from the Labor Department. They are certificated and they work legally for a limited period of time.

Senator NICKLES. Sol and Althea, Senator Williams has a question that he would like for you to answer, and your answers will be entered into the record.

Again, I apologize to all of you and I look forward to working with you. I apologize for the rush; thank you very much.

[The following material was subsequently received for the record:]



SOL C. CHAIKIN
PRESIDENT
SHELLEY APPLETON
GENERAL SECRETARY-TREASURER
WILBUR DANIELS
FREDERICK SIEMIS
EXECUTIVE VICE PRESIDENTS
DAVID DUBINSKY
HONORARY PRESIDENT

GENERAL EXECUTIVE BOARD
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SOL GOLDBERG
MARCEL GONZALEZ
SOL GREENE
GERALD GROSSMAN
SOL HOFFMAN
MATTIE JACKSON
EDWARD KRAMER
DOUGLAS LEVIN
FRANK LONGO
JAY MACVIE
LOUIS V. MONTENEGRO
PETER NAGASH
SAMUEL NEHRAZER
EDWARD SCHNEIDER
MATTHEW SCHOENWALD
RIVEN SELIGMAN
CORNELIUS WALL

April 10, 1981

Senator Harrison A. Williams, Jr.
Committee on Labor and Human
Resources
United States Senate
Washington, D.C. 20510

Dear Senator Williams:

Pursuant to your letter of March 25, 1981, I am forwarding the enclosed responses to your questions on the proposed Youth Subminimum.

Please accept my appreciation for this opportunity to express the views of the International Ladies' Garment Workers' Union on this vital issue.

Sincerely,

Heck Lander
President

Enclosure

INTERNATIONAL LADIES' GARMENT WORKERS' UNION, 1710 BROADWAY, NEW YORK, N.Y. 10019, TEL. 212/265-7000



1. There is a lot of debate about whether the minimum wage law creates or reduces unemployment. What is your view?

Despite repeated predictions to the contrary, minimum wage rates have not caused a demonstrable curtailment in employment in the more than forty years since the Fair Labor Standards Act was enacted. Unemployment, like employment, reflects what is happening in the economy. It declines when the economy is moving up and rises when the economy moves in a downward direction. This simple truism holds for teenage as well as adult unemployment.

In my testimony before this Sub-Committee, I developed this view at considerable length. I cited in detail the conclusions of a lengthy analytical study made by the Bureau of Labor Statistics at the request of the Secretary of Labor during the Nixon Administration. I also presented statistical data on levels of teenage unemployment coincident with improvements in minimum wages. I would like to refer once again, in summary, to two of these citations.

The Bureau of Labor Statistics study concluded that "the most important factor explaining changes in teenage employment and unemployment has been general business conditions as measured by the adult unemployment rate." (U.S. Department of Labor, Bureau of Labor Statistics, Youth Unemployment and Minimum Wages, 1970, p. 45.) This conclusion is exactly how I opened my comment on this question.

Second, since 1960 there have been 12 improvements and two changes in coverage in minimum wages. When data for the 12 month period following such increases are compared with the 12 months prior to the increase, we find that

teenage unemployment declined in 7 out of the 12 cases following a rise in the minimum. Of the five remaining instances where teenage unemployment rose, three - 1974, 1975 and 1980 - were years of poor business conditions. In the two remaining years, 1963 and 1967, the economy in each year grew more slowly than in the prior year.

A special, lower rate for teenagers may lead to an initial increase in teenage employment. But at what cost? Obviously, at the cost of increasing adult unemployment. It would merely redistribute unemployment. Jobs for teenagers and for adults will be created only in an expanding economy, not by displacing workers of one age group with those of another age group.

In our consumer-oriented economy we must seek to increase the ability of all sectors of the population to purchase goods and services. Decreasing personal income and creating new areas of unemployment may be of initial assistance to employers, but in short order, because of declining purchasing power, they will begin to amass considerable inventories because of the inability of would-be purchasers to buy or be forced to cut production.

Our country grew over the years into a nation with the highest living standard in the world not by cutting wages and creating unemployment, but by paying higher wages than elsewhere. Low incomes and increased unemployment may temporarily increase profits, but they cannot provide the basis for rebirth of our economy.

2. Can you explain just why an increase in the minimum wage would create jobs?

This question opens up a broad area about which much can be said. I will try to be brief.

As I stated in my response to the previous question, our nation created the highest living standard in the world because we paid - at least until recently - the highest wages in the world. I am not saying that our wage levels have always been sufficient to meet the needs of our people, but they were higher than elsewhere. We developed over the years a consumer-oriented society aimed at realizing the great American dream of higher living standards for all of our people. Our entire economy, from basic industries to mass consumption industries, has been geared to providing products that would enable our people to live better.

Increases in the minimum wage would increase the purchasing power of our people and create additional jobs. The proposal to create a youth sub-minimum would create unemployment among older workers and competition for sub-minimum wages, resulting in a general deterioration of purchasing power. Oh yes, there might be increases in profits, but these would only be temporary and a more severe downturn in the economy would ensue as fewer people will be able to purchase the products we make and the services we provide.

Over the years, labor has been blamed for inflation. We have been told that rises in the cost of labor is the core of the problem and labor's needs have to be reigned in. I have indicated how short-sighted

this is. Now, along comes The Wall Street Journal to inform us that while "the rising expense of labor is a well-publicized story... remarkably little attention has been paid to the even swifter climb in recent years of the cost of capital." (April 8, 1981, p. 56). In 1980, we are told, at 10.7% the "capital-cost rise was the steepest on record," surpassing the national labor-cost rise of 8%. Such costs, we are further informed, reflect "such diverse factors as bank-loan rates, the cost of raising money in securities markets, and plant-and-equipment price levels."

Yet, there are no outcries against these non-wage related contributions to our virulent inflation on the same level as those aimed at labor's efforts to secure wage increases considerably below the inflation rate. Instead, we are confronted with proposals for a youth sub-minimum, which can only lower living standards, and replace older workers with "cheaper" young workers.

There is also a social factor related to the need for higher minimums. We cannot and we will not be able to deal effectively with social unrest in our cities by increasing the frustration of the young unemployed through creation for them of positions from which they may be replaced by other sub-minimum workers once they develop skills and seek "advancement."

3. What measures would you propose for dealing with the problem of youth unemployment?

The key to increased jobs is a general rise in the level of business activity, particularly in the small business sector where wages are low and where many teenagers now find employment. Special low-interest rates should be provided to small business to encourage job creation.

There is also a crying need for social and economic, if not for humane, reasons to rebuild our inner cities which we have over the past few decades permitted to fall into decay. There are vast opportunities for jobs in this massive, but necessary, task. We would, in the process, begin to tackle some of the fundamental problems afflicting our society, problems that are intensifying as young people find jobs more and more difficult to obtain.

To create jobs for young people, government-funded training programs are needed, programs which emphasize development of skills, and which are targeted to meet specific manufacturing and construction industry needs. Analysis would show that the cost of such training would be more than offset by its benefits - not only to the specific young people involved, but to society as a whole.

4. Are there members of your Union making the minimum wage? If not, why are you concerned about these bills?

New entrants into garment shops under contract to the ILGWU can receive the statutory minimum during their initial trial period. As they progress in skill level, their earnings increase commensurately. Wage levels for experienced workers in the unionized sector of the garment industry are quite a bit above the Federal Minimum, although still less than the industrial average.

In the non-Union sector of our industry, however, the statutory minimum often constitutes the effective maximum. This concerns us for two reasons. First, our Union's responsibilities include not only representing the best interests of our members, but an abiding concern for unorganized workers as well. Moreover, we are legitimately concerned with the burden which low-wage, non-Union competition places on the garment industry.

The non-Union sector, like the garment industry as a whole, employs adult women overwhelmingly - many of whom are heads of households. Often they are members of minorities. As I have alluded to previously, the youth sub-minimum would provide a compelling incentive for employers to lay-off these adults in favor of teenage workers. Nor is this an unrealistic assertion. Operation of a sewing machine is a skill which most persons, including teenagers, can acquire in relatively short order. The wholesale replacement of adult non-Union workers by teenagers would further disadvantage those who have the least. Moreover, when a teenager becomes eligible for the full statutory minimum, the employer would again have the compelling incentive to hire a replacement earning the sub-minimum.

The revolving-door employment practices which would surely follow enactment of the sub-minimum would be contrary to a meaningful solution to youth unemployment. Moreover, literally hundreds of thousands of adult non-Union garment workers would be denied even the meager opportunity to make a tough but honest living.

5. You have said that you don't like the trend of these bills. Could we explore that further? What is your picture of what the U.S. would be like without a minimum wage law?

The minimum wage law is a significant weapon in the war on poverty. It helps to reduce misery and deprivation and enables workers and their dependents to purchase more necessities of life that they lack at present. For all the reasons I have given in my testimony and in response to other questions, the minimum wage law provides a base on which to build a better life. I am not saying that the present minimum wage levels are sufficient. I am saying that without a minimum wage law a deep void would be created in our society and the American dream of a better life for all of our people would be severely jeopardized.

The greatest burden in a U.S. without a minimum wage law would fall on the poor and on the minorities, the blacks and Hispanics. These are precisely the people who are least able to cope with further deprivation. Where would this intensified deprivation stop? In effect, we would be accentuating the growing chasm between the poor and the rich. We would be redistributing income - and purchasing power - from the poor and the minorities to the wealthy and the corporations. In relatively short order, we would create in our own country the kind of dual economy that characterizes the most backward countries of the world.

6. The labor movement was in large part inspired by sweatshop conditions and exploitation of younger workers in the garment industry. Do these sorts of conditions still exist and will enactment of sub-minimum wage laws worsen this problem?

Sweatshop conditions still exist in the garment industry and have, in fact, intensified in recent years. Enactment of sub-minimum wage laws would legitimize the sweatshop problem. The conditions prevailing in sweatshops have been exacerbated by unscrupulous non-union employers who hire both undocumented workers and legal workers at wage levels below those provided in the Fair Labor Standards Act. Government regulatory agencies have not been given sufficient staff to investigate violations and to take appropriate action. Exploitation of undocumented aliens is additionally caused by the fear these workers have of exposure and the constant threat that employers hold over them that they will be reported to the immigration authorities if they complain to the union or to government agencies about their illegal treatment. We have advocated amnesty for undocumented workers now in this country in an effort to stop the sweatshop practice.

7. At the hearing, a passage from Milton Friedman's book, Free to Choose, was quoted. In it Mr. Friedman argues that the minimum wage is a bar to employment and a burden to the unemployed. Would you give your judgment as to the validity of this claim?

In our experience and in the experiences of thousands of companies and millions of workers, no employer ever hires workers when there is no work for them to do. Employers hire workers only when there are additional orders to fill and a reasonable opportunity to make a profit. If Milton Friedman's argument were accepted, the already massive burden on workers receiving minimum wages or wages below the legal minimum would be intensified. It is naive to infer that the low-paid worker and the employer are on even ground in striking an equitable bargain without specific protection to the worker. That's why we have unions in this country, and that's why the Congress passed the Fair Labor Standards Act in 1938. It is also naive, as Friedman has suggested elsewhere, to suggest that equality in the wage bargain exists because the employer has the right to withdraw his job offer and the worker the right to withhold his labor. Friedman's views may be acceptable to theoretical economists, but they don't reflect the real world.

Senator NICKLES. Incidentally, we will keep the record open for 2 weeks for McDonald's to respond, or whoever else wants to respond.

Our last panel will be representatives of the Retail Bakers of America, and also the Society of American Florists.

Michael Ahern, where are you from?

Mr. AHERN. Akron, Ohio.

Senator NICKLES. Welcome.

Representing the Retail Bakers of America, we have James Sloop.

Mr. PANARO. I am Gerard Panaro, general counsel of the association, and I have Jim Sloop, who is third vice president, on my right, and Harold Suggs, who is with Busken's Bakery, on my left.

Senator NICKLES. Busken's Bakery in Cincinnati?

Mr. SUGGS. Yes, sir.

Senator NICKLES. We welcome you, and we realize that you traveled and we appreciate your interest. I apologize for the lateness of the day. We had two witnesses that took a considerably much longer period of time than was expected. I had hoped that we would not have such good attendance from our committee members and we could have moved a little quicker.

I have read your testimony and I think you pointed out some very good things. Are you going to be the spokesman?

Mr. PANARO. Senator, I will start off, if I may, and let me just highlight for about a minute or 2 some of the elements of our testimony. Is that acceptable?

Senator NICKLES. Please.

STATEMENT OF GERARD P. PANARO, GENERAL COUNSEL, RETAIL BAKERS OF AMERICA; JAMES R. SLOOP, OWNER, THE SWEET SHOPPE RETAIL BAKERY, HIGH POINT, N.C., AND THIRD VICE PRESIDENT, RETAIL BAKERS OF AMERICA; HAROLD SUGGS, DISTRIBUTION MANAGER, BUSKEN'S BAKERY, CINCINNATI, OHIO; AND MICHAEL W. AHERN, MEMBER, GOVERNMENT AFFAIRS COMMITTEE, SOCIETY OF AMERICAN FLORISTS, A PANEL

Mr. PANARO. We took a survey of our entire membership of 2,500 members to determine what the impact of rises in the minimum wage on their businesses were. Seventy-seven percent of the respondents said that they had not used section 14(b) of the Fair Labor Standards Act to hire full-time students at 85 percent of the minimum wage. The reason most frequently given for not using 14(b) was that 85 percent of the minimum was still too much money to pay for such employees.

Other respondents cited these additional effects that increases in the minimum wage had on their operations: They lost customers, and therefore sales income; they did not replace employees who left, nor did they hire additional employees that they might have otherwise. Some bakers even laid employees off.

Four bakers who replied to our survey said they had to close one or more of their outlets, or went out of business altogether as a result of the minimum wage increase. An equal number said that capital which would have been reinvested into the business went into paying higher wages.

In addition to creating more employment opportunities for young people if 14(b) is amended, our members believe that a change in existing law would result in benefits such as the following: Reduced workloads and pressure on existing employees; increased production; expansion of the business; more time to train new people; slowing down of price increases; allowing employers to give employees larger bonuses and offer more services to their customers; make it easier for unskilled persons with below-average productivity capabilities to find work; put less pressure on employers to replace live employees with automated equipment; and allow better wages to be paid to skilled employees and permit the bakery to recruit and retain more competent adult personnel in key positions in the bakery.

That summarizes my testimony. I would like to turn it over now to Mr. Sloop, who is a retail bakery owner in High Point, N.C. [The prepared statement of Mr. Panaro follows:]

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STATEMENT OF GERARD P. PANARO

GENERAL COUNSEL, RETAIL BAKERS OF AMERICA

BEFORE

THE SENATE LABOR SUBCOMMITTEE

ON

AMENDMENT OF §14(b) FAIR LABOR STANDARDS ACT

WEDNESDAY, MARCH 25, 1981

Good morning. My name is Gerard Panaro and I am General Counsel to the Retail Bakers of America. With me are Jim Sloop, RBA Third Vice President and a Retail Baker and Harold Suggs, Distribution Manager at Busken's Bakery in Cincinnati. I appreciate this opportunity to summarize for you the results of a survey we took of our membership on the subminimum wage.

The survey, which consisted of five questions, was mailed to 2,250 retail bakers. We received 384 responses, which was 17% of the total number mailed.

Seventy-seven per cent of the respondents said that they had not used Section 14(b) of the Fair Labor Standards Act to hire full time students at 85% of the minimum wage. The reason most frequently given for not using Section 14(b) was that 85% of the minimum was still too much money to pay for such employees.

Forty-five percent of the respondents said that when the minimum wage increase* from \$2.30 per hour to \$2.65 per hour on January 01, 1978, they raised prices, reduced the size and variety of the products they sold and cut back their hours of operation. Only one per cent said they simply passed along the increased costs to their customers.

Other respondents cited these additional effects the minimum wage had on their operations:

1. They lost customers and therefore sales income;
2. They did not replace employees who left, nor did they hire additional employees that they might have otherwise. Some bakers even laid employees off.

Four bakers who replied to our survey said they had to close one or more of their outlets or went out of business altogether as a result of the minimum wage increase. An equal number said that capital which would have been re-invested in the business went into paying higher wages.

The reason retail bakeries are so sensitive to every change in the minimum wage law is that they are so labor intensive. Half of the bakers in our survey said that their labor costs alone were between 30 and 40 per cent of their total operating costs, and an additional 25% of the bakeries reported labor costs equal to more than 40% of total expenses.

Were existing law amended to permit the employment of all persons under 20 years old or younger - not just full time students -- at 75% of the minimum wage, certainly not every retail bakery in the country would rush out to hire people in this category. But 42% of the bakers in our survey said that they would hire more teenagers if they could pay them a lower subminimum wage.

In addition to creating more employment opportunities for young people, our members believe that a change in the existing law would result in benefits such as the following:

1. Reduced work loads and pressure on existing employees;
2. Increased production;
3. Expansion of the business;
4. More time to train new people;
5. Slowing down of price increases;
6. Allow employers to give employees larger bonuses and offer more services to their customers;
7. Make it easier for unskilled persons with below-average productivity capabilities to find work;
8. Put less pressure on employers to replace live employees with automated equipment;
9. Allow better wages to be paid to skilled employees and permit the bakery to recruit and retain more competent adult personnel in key positions in the bakery.

The results of this survey lead us to believe that amendment of Section 14(b) of the Fair Labor Standards Act to provide a lower subminimum wage for a broader class of young people will benefit those who will then find more employment opportunities available and the general public, at least as much as it will help small businesses. And I thank the Committee for allowing us to share our position with you.

Senator NICKLES. Welcome, Mr. Sloop. How many people do you employ?

Mr. SLOOP. We employ about 40 people.

Senator NICKLES. Do you have one bakery?

Mr. SLOOP. We have one production plant and we also have five sales stores.

Senator NICKLES. Thank you. Where is your home?

Mr. SLOOP. High Point, N.C.

Senator NICKLES. Welcome. Please proceed.

Mr. SLOOP. Thank you very much.

I will abbreviate my prepared statement. We favor the employment of teenagers at 75 percent of the minimum wage. This would not displace people. In our business, we value the experience, the knowledge, loyalty, honesty, and dependability of our employees who have been with us for a long time. We would never think of firing them to hire some teenager at a lower wage rate.

Such a practice would have a devastating effect on employee morale and would probably cost us as much in unemployment compensation as we save on payroll.

There is no such thing as menial or dead-end jobs in a retail bakery. There is a good future for anyone with the interest and ambition to pursue it. At this particular time, we have an employee who is a high school senior that is working for us. He comes in on Saturdays to scrub floors and clean cabinets and restrooms. Just recently, we asked him to come with us full time after graduation. I told him I would teach him to become a baker. If he accepts our offer, he can either stay with us, take a job elsewhere, or even start his own business, and we tell our employees this. He started out with us at 85 percent of the minimum wage, and this is one of the examples we have that opportunity does exist in the retail bakery industry, even for persons coming in at the very bottom.

Mr. Chairman, I think to the extent that Congress loosens the stranglehold that current law has on employers and young people alike, it will encourage us to create more jobs and hire young people to fill them. It will also benefit the public generally by allowing us to provide them more service, more product, longer store hours, and less frequent price increases.

We thank you, Mr. Chairman, for the opportunity to speak to you. We certainly want to emphasize again that we think that the subminimum wage would help the teenager to find employment, and we reject the notion that they would be replaced by other teenagers just to keep that subminimum. We also reject the notion that older people would be displaced. It just is not realistic.

[The prepared statement of Mr. Sloop follows:]

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STATEMENT OF JAMES R. SLOOP,

OWNER OF THE SWEET SHOPPE RETAIL BAKERY AND

THIRD VICE PRESIDENT, RETAIL BAKERS OF AMERICA

BEFORE

THE SENATE LABOR SUBCOMMITTEE

ON

AMENDMENT OF §14(B) FAIR LABOR STANDARDS ACT

WEDNESDAY, MARCH 25, 1981

Good morning, Mr. Chairman. I am Jim Sloop, Owner of the Sweet Shoppe in High Point, North Carolina. I am also Third Vice President of the Retail Bakers of America. RBA is the national association of the country's 32,000 retail bakeries.

I appreciate this opportunity to testify today in support of legislation to amend Section 14(b) of the Fair Labor Standards Act. We favor the employment of teenagers at 75% of the minimum wage. We also believe there is merit in allowing older trainee-employees to work at the same rate for up to six months.

In the retail baking industry, this will not result in significant dismissal of older and higher paid employees. It will not lead to constant replacement of young employees. It will not relegate teenagers to menial dead end jobs.

In our business, we value the experience, knowledge, loyalty, honesty and dependability of our employees who have been with us a long time. We would never think of firing them to hire some teenager at a lower wage. Such a practice would have a devastating effect on employee morale. It would probably cost us as much in employment compensation as we would save on payroll. Also, there are certain jobs and working hours in our bakery for which teenagers are simply unavailable. On the other hand, there are certain times---evenings for example---when older employees with families do not want to work. Allowing teenagers to fill these hours would not displace those other employees.

There is no such thing as a "dead end" or menial job in a retail bakery. There is a good future for anyone with the interest and ambition to pursue it.

My own bakery and employees prove this. We have one employee, for example, who is now a full-fledged baker. I am grooming him to become a production manager. He started with us seven years ago, hired as a teenager at the subminimum wage to sweep floors and do maintenance work. After he had been with us awhile, I offered to send him to the Dunwoodie School of Baking in Minneapolis. I offered to pay his tuition and other expenses, which would have amounted to three thousand dollars.

We have another employee who is now a high school senior. He comes in on Saturdays to scrub floors and clean cabinets and the rest rooms. Just recently I asked him to come work for us full time after graduation. I told him I would teach him how to become a baker. If he accepts our offer, he can either stay with us, take a job elsewhere, or even start his own business. He too started out with us at 85% of the minimum wage. And these are but two examples from one bakery of the opportunities that exist in the retail baking industry, even for persons coming in at the very bottom.

There are three major problems with the current subminimum wage:

One, 85% of the minimum is still too much to pay for the small retail bakers who constitute the vast majority of the industry. Retail baking is labor intensive due to the handcraft methods of our operations. Current law provides little incentive to take a chance on someone with no proven work habits. This is because a great deal of time must be invested to train that person up to the point at which his wages are justified by his productivity. 75% is no big improvement, but it is a step in the right direction. So is the removal of the limit on the number of teenagers who may be hired.

Two, it is unfair to restrict the subminimum wage provision to full time students only. There are other young people equally desirous and deserving of the same privilege. Other limitations on hours students may work and work they may not do also reduce the law's utility to would-be employers.

And three, many retail bakers still find the paperwork too tedious and intimidating to be worth their while. This is in spite of the 1977 amendment which was supposed to simplify the certification application form.

To the extent that Congress loosens the strangle-hold current law has on employers and young people alike, it will encourage us to create more jobs and hire young people to fill them. It will also benefit the public generally by allowing us to provide them more service, more product, longer store hours and less frequent price increases.

For these reasons, the Retail Bakers of America supports amendment of Section 14(b) and thanks the Committee for this opportunity to explain that support.

Senator NICKLES. Thank you very much.

Mr. Suggs.

Mr. SUGGS. Mr. Chairman, I am happy to appear before the Labor Subcommittee today as a witness on behalf of the RBA.

Some people say that if employers are allowed to pay teenagers a wage less than full minimum, then teenagers will end up in dead-end jobs that have no future for them. From my experience and the experience of other people, I know personally that this is not true.

I was hired by Busken's Bakery to wash pots and pans at the age of 18. I was hired for \$1 an hour for 48 hours a week. I would have taken a job for even less because I really needed to work. I am still there, but as of right now, I am not washing pots and pans. I am distribution manager for the entire operation and in charge of a \$300,000 per year purchasing budget. I assure you I am earning many times more than \$48 a week.

We distribute to 9 retail outlets and to 30 wholesale accounts. These include hotels, offices, restaurants, and supermarkets. We also deliver items such as wedding cakes to individual customers. Our delivery radius is about 30 miles. We deliver \$3.5 million worth of bakery foods a year.

When I graduated from high school, I took out an ad in the paper which said, as I recall, "High school graduate seeking job of any kind." Joe Busken, Jr. called me and invited me for an interview.

I started working for Busken's Bakery in 1956, in August of that year. In April of the following year, I was hired as a truck driver for Busken's Bakery. I assumed my present position as distribution manager in 1974. Today, I am 42 years old and have been married for 22 years. I have four children and a daughter attending the University of Cincinnati studying to be a respiratory therapist.

Although I am certainly very thankful for my accomplishments, I am well aware that I am not unique or that it is not unusual. I know quite a number of people for whom getting a job in the first place was far more important than the work itself or the starting pay. These people knew that it was only the beginning and that they could make something of their lives if they were just given a chance.

That is why the job was the most important thing; it gave them their chance and it gave them their opportunity. That is why I agreed to come here today to tell you a little bit about myself, and thank you for inviting me here.

[The prepared statement of Mr. Suggs follows:]

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STATEMENT OF HAROLD SUGGS,
DISTRIBUTION MANAGER OF BUSKEN'S BAKERY,
CINCINNATI, OHIO,
ON BEHALF OF THE RETAIL BAKERS OF AMERICA

BEFORE

THE SENATE LABOR SUBCOMMITTEE

ON

AMENDMENT OF §14(b) FAIR LABOR STANDARDS ACT

WEDNESDAY, MARCH 25, 1981

Good morning, Mr. Chairman. My name is Harold Suggs. I am Distribution Manager for Busken's Bakery in Cincinnati, Ohio. I am happy to appear before the Labor Subcommittee today as a witness on behalf of RBA.

Some people say that if employers are allowed to pay teenagers a wage less than the full minimum, then teenagers will end up in dead-end jobs that have no future to them. From my experience, and the experience of many people I know personally, that simply is not true.

I was hired by Busken's Bakery to wash pots and pans at one dollar an hour for 48 hours a week. That was twenty-five years ago, when I was 18 years old and just out of high school. I am still there, but I am not washing pots and pans. I am Distribution Manager for the entire operation and in charge of a 300,000 dollar per year purchasing budget. And I assure you I am earning many times 48 dollars per week.

As Distribution Manager, I am responsible for packing and delivering all the bakery foods that are shipped from our central plant. I am also in charge of hiring drivers, setting up the delivery schedule and the drivers' schedules, and seeing that the vehicles are properly maintained. We have four trucks, one van and two station wagons. There are four people working under me.

We distribute to our nine retail outlets and to thirty wholesale accounts. These include hotels, offices, restaurants and supermarkets. We also deliver special items, such as wedding cakes, to individual customers. Our delivery radius is approximately 30 miles. We deliver three and a half million dollars worth of bakery foods per year.

In addition to seeing that the things we make get to where they're going, I also oversee the purchase of all store packaging and manufacturing supplies. These include bags, boxes, foil pans, napkins, twine, and similar inventory. My purchasing budget is over three hundred thousand dollars a year.

I was born in Russellville, Alabama in 1938 and moved to Cincinnati when I was 15. When I graduated from high school, I took out an ad in the newspaper which said, as I recall, "High School Graduate Seeking Job Of Any Kind." Joe Busken called me up and invited me in for an interview.

I started with Busken's in 1956. The following year, I started driving one of the Company's delivery trucks. One of the drivers had left and Joe Busken called me into his office and asked how I felt about driving a truck. I asked him, do you think I can? And he answered, if I didn't I would not have asked you. I told him I didn't know how to drive a standard shift, and he told me to just go out and try. That was Monday. A few days later, Mr. Busken asked how I was progressing and I told him I didn't think I was ready to take the truck out by myself yet. He said, well, you better get ready because on Friday, you're making the trip on your own. By Friday, I was ready to go.

I assumed my present position as Distribution Manager in 1974. Today, I am 42 years old and have been married for twenty-three years. I have four children, two sons and two daughters. One of my daughters is a student at the University of Cincinnati and is learning to be a respiration therapist.

I have had job offers from other companies, but I have decided to remain where I am, with the people who gave me the first of many opportunities to have a very successful career.

And although I am certainly very proud of my own accomplishments, I am well aware that I am not unique or unusual. I know quite a number of people for whom getting a job in the first place was far more important than the work itself or the starting pay. These people knew that it was only the beginning and that they could make something of their lives, if given the chance. That is why the job was the most important thing -- it gave them their chance, it gave them their opportunity.

And that is why I agreed to come here today and tell you a little about myself. Thank you for inviting me here this morning.

Senator NICKLES. Thank you very much, Mr. Suggs. I welcome you particularly because you have been able to shed some light that other witnesses to date have not. I think you are to be commended.

Mr. Ahern, do you have a couple of comments you would like to make?

Mr. AHERN. Yes, I do, Mr. Chairman. Thank you for allowing me to be here. My name is Mike Ahern. It says "Michael W.," and I only get that when my mom is mad at me.

I am here testifying on behalf of the Society of American Florists and I would like to give you a little information about that; some of it is in the testimony here. We are an association of very small businesses; retail, wholesale, growers, suppliers—anything to do with the floral industry in cut flowers, plants, flowering plants, bedding plants, or anything to do with flowers.

The reason that is important is that there are 26,000 producers of cut flowers and plants in the country. Only 2,600 of them do more than \$100,000 gross a year. There are 29,000 retail florists in the country, roughly; these are all estimates. The average total retail sales per store was about \$100,000, and that is an estimate. It was \$85,000 a couple of years ago. The florist industry has not been very strong, so that the gross volume is not increasing rapidly.

I think we can shed a little light. I am a retail florist; I am a third generation of our family in Akron and the fourth generation in the flower industry. We have been doing it for a long time. The first job I had was out behind the greenhouse shoveling manure into a shredder. I do not know that there is a whole lot further down than that.

Senator NICKLES. Did you get paid?

Mr. AHERN. Yes, I think I got 50 cents an hour at that point, but it was a number of years ago. But I also got something out of that, and it is something that I want my kids to have and something I would like every kid to have. I had a job. When I was 10 years old, I got a job working for a landscaper. I do not even remember how much I got; it does not really matter. I have always worked and I have always had the opportunity of doing something for myself.

We have participated in distributive education programs in our city. In the last 2 years, we have had to stop doing that for two reasons. One is that it involves the minimum wage, but on a slightly different tact. The minimum wage was too much; I was willing to pay it anyhow. But what happens with the thing is that it sheds itself through the entire organization that we have.

Everybody in our employ—and we have two stores—knows when somebody is productive and they know when somebody is not productive. They know when they are earning their money and when they cannot possibly be earning their money, and that reflects itself through the entire organization.

When we have a young man in—and we have had young men and women—and they are making the minimum wage and they are not earning it, which I do not think any unskilled, untrained person possibly can in an entry-level job as a teenager, it reflects all the way through and other employees say, "Well, fine; if they are making this wage and you are willing to pay that, how come you are not paying me more?"

So, it ends up reflecting itself throughout the organization and I have to either not to do it—well, basically, what happens is that I just do not do it.

We have hired teenagers to do things around the store that currently are not being done. Now, we would kind of like to have them done, but we can get along without them. In my area, we are in the center city. We have a number of people come in, and I have had probably, in the last 2 or 3 weeks, half a dozen black children come in and say to me, "Give me a job at any rate," which I cannot do.

I would like to give them a job, and they would be working primarily with me. We are a very small organization. So, what are they going to do? They are going to work with me; we are going to do the maintenance work. They are going to learn how to use a hammer and repair some of the things, and do a lot of the maintenance jobs. But they are going to get a lot of supervision from somebody and learn how to work.

Very seldom do they stay with us for 6 months. In 6 months, they have learned how to work. They now have a job; they know they have to show up on time and they know they have to work when they are there. They have learned enough that they go get another job and they usually get a job that is more than I can afford to pay them. But they are now out in the work force. It may be the first opportunity they have ever had, and maybe a lot of the people in their families have not had a lot of opportunity.

I would like to give it to them, but I cannot under the circumstances we have now.

Senator NICKLES. Let me just ask you a question, and I will ask the rest of you questions too.

You are not mandated to be under the minimum wage law presently, are you?

Mr. AHERN. Yes, we are; we are, in volume. There is also a question now as to whether not, by interstate commerce, we are, because almost every flower shop has at least one wire service, which means we are transmitting orders back and forth across State lines. Whether or not that technicality makes us subject to the laws has not been decided. But, in effect, we are.

Now, we have been, as a matter of course, in the city, anyhow. If there is no law that specifically says that there is a subminimum wage for teenagers, from the standpoint of the society around us we cannot use it.

I am probably one of the larger retail florists, and we are quite small. I am here; most of them cannot be here. They are not going to go through a process of certification; they are not going to apply to any department anywhere to get a permit to hire people at less than the minimum wage. If it is not possible for them to do just simply because the law says we cannot do it, they will not do it. They just do not have the expertise and are not going to take the time to go through the redtape and the paperwork.

Senator NICKLES. I can understand that. I can see under the interstate commerce clause where you could be subject to this. I guess the prevalent thought is that if the minimum wage is \$1.60 or if it is \$3.35, that is what it is; even though a particular firm may be exempt, it is possibly crowding a few people out.

How many people do you have working for you?

Mr. AHERN. We have 25 employees in 2 stores.

Senator NICKLES. Let us say we had an exemption for teenagers under the minimum wage. Would you hire more kids to train them, as you said?

Mr. AHERN. We would very likely hire two of them, one at each store. We had distributive education kids before that we have discontinued. Even at \$2.50 an hour, as to whether we would get a \$2.50-an hour benefit out of them, to be honest I really do not care. They have to work in order to get some money and they have to work in order to earn their money. It is not fair to them for me to bring them in and have them just sit there, because they have not learned what they are supposed to learn.

But I can afford enough to keep a couple of kids on, and maybe they are going to rotate. That is great; that means they went out and got a job someplace else for more money and have accomplished what I am after.

[The prepared statement of Mr. Ahern follows:]



STATEMENT OF
MR. MICHAEL W. AHERN
ON BEHALF OF
THE SOCIETY OF AMERICAN FLORISTS
BEFORE THE
UNITED STATES SENATE
COMMITTEE ON LABOR AND HUMAN RESOURCES
SUBCOMMITTEE ON LABOR
ON
S. 348, S. 430, AND S. 658
MARCH 25, 1981

SOCIETY OF AMERICAN FLORISTS 901 N. Washington St., Alexandria, VA 22314 (703) 836-8700

Mr. Chairman, my name is Michael W. Ahern. I am a third-generation retail florist from Akron, Ohio and I am testifying today on behalf of the Society of American Florists (SAF) where I serve currently as a member of SAF's Government Affairs Committee. I am also a past member of the SAF Retailers Council.

SAF is the national trade association representing all segments of the floral industry -- growers, wholesalers, and retailers of fresh flowers, green plants, bedding plants, florist's greens, and all other floral products -- an industry truly representative of small business. Through membership and affiliation SAF represents over 90 percent of the commercial floriculture industry. Floral products are grown for the American consumer, for use in improving the home and office environments, for sentimental expressions of love, sympathy, or congratulations, and numerous other reasons. Flowers and plants replace the concrete and plastic barriers around us and bring the beauty of the outdoors inside.

I am particularly pleased to be able to testify in support of the concept of a youth minimum wage embodied in the legislation you are currently considering -- Senate bills 348, 430, and 658, to amend the Fair Labor Standards Act of 1938.

In January, 1980, the floral industry was privileged to send a representative as a delegate to the White House Conference on Small Business here in Washington. As I am sure you are already aware, the result of that Conference was a list of fifteen high priority recommendations to help identify the many special problems facing small business and to design

an agenda to address them in a constructive way. I am pleased to report that at least one of those fifteen recommendations has been translated into legislation and enacted in law. But another of the fifteen high priority recommendations which warrants your most immediate and thorough consideration concerns establishing a sub-minimum wage for teenage employees.

It is particularly appropriate that the floral industry endorse the concept of a youth minimum wage since all segments of our industry -- that is, growers, wholesalers, and retailers -- traditionally have drawn an important portion of their labor from the teenage segment of the labor force.

Whether it be the grower who hires the young employee for work in the greenhouse or fields, or the wholesaler who hires teenagers for loading dock work or pickups and deliveries, or the retailer who can use the young worker for driving the delivery van or a myriad of other duties, the floral industry could put a significant part of this basically unskilled, untested, and chronically unemployed segment of America's labor force to work in a productive way, without replacing any existing employee.

But there is one problem. Along with the cost of merchandise, labor costs remain the number one operating expense in all segments of the floral industry. The current minimum wage actually discourages those of us in the floral industry from hiring teenaged workers by compelling us to pay more than the unskilled and untrained employee is worth.

The nature of our industry demands a ready supply of part-time or temporary employees in preparation for and during the peak business seasons of the year. Many of these people could be unskilled students or unemployed teenagers, but it is impossible to pay these workers the minimum wage without raising the prices of our products -- and that is inflationary. How much higher can prices go before great numbers of consumers stop buying flowers and plants?

Consequently, floral industry employers can't afford to hire the young people they need. As a result the young people don't get the jobs and the income they need. This is happening today -- at a time when we all bemoan our lagging productivity rate. I can tell you, members of the Committee, the floral industry's productivity would increase if we could afford to hire the young people we need to do the job! And without a doubt, if we could pay these young workers less than the current minimum wage, we could afford to keep them employed longer. In our industry there is always something to be done.

Young people today have a pretty difficult time getting started in the job market, particularly those without higher education. But after they get a job and have had it for a few years they progress, they become productive members of the American labor force. It is in their best interest to get work experience even at a differential wage -- just to get the experience. Many of the youth labor force are not married and they may live at home; they may have less personal

expenditures and they can afford to go through an apprenticeship period, if you will, just as many of us did in our learning years. It would be progress to give them the opportunity. But under the current minimum wage system, the economics of the situation won't allow us to give them the opportunity. And I think everyone recognizes that untrained, unskilled young people constitute a serious social as well as economic problem. The unemployment rate of these new entries into the nation's workforce continues to increase at an alarming rate. If a significant number of them are not employed by the floral industry, it is because our highly competitive, labor-intensive industry cannot afford them at today's minimum wage rate.

In conclusion, I urge the Committee to act favorably on a youth minimum wage. If the Congress will act on this issue and make it economically possible to employ young workers, we can put many of these young, potentially productive people to work. At a time when we are all working to turn our country around and get on the road to economic recovery, anything less will only aggravate an already serious problem.

Thank you, Mr. Chairman. I would be happy to try to answer any questions the members of the Committee may have.

Senator NICKLES. Mr. Sloop, you mentioned that you would favor the 75-percent youth differential. Does that appeal to you more than, say, the exemption for teenagers? I was just wondering, since we have a couple of different proposals, which one appeals to you the most.

Mr. SLOOP. Well, I would like to have the 75-percent differential for any age group of people that are going into the job market, but particularly teenagers. Our experience has been that we can bring these people in, and frequently they do advance.

We have one young man that we are grooming now for production manager who came with us as a teenager; he worked for the subminimum wage.

I would like to say also, Senator, that the subminimum wage will create some jobs. It is not always a certainty as to how many people a business needs. In the retail business, when I get ready to determine how many people I am going to need on a given Saturday for people in our sales store, I do not really know.

If I can employ these people at a lesser rate to begin with, then we are more apt to take a chance on having more people there and maybe extending our hours. Also, I would like to say that very infrequently do these people remain at this subminimum wage. At this particular time, we have several teenagers working for us and none of them are making less than the minimum wage because they have been advanced because of the productivity that they have in the job.

Senator NICKLES. You mentioned something else very positive, I think. As a businessman, you felt like it would be ludicrous or stupid or uneconomical to displace or replace existing personnel and bring in somebody cheaper because of the problems it would cause you through unemployment and through possible labor turmoil. You would have other employees that would be upset if that would happen, and you would possibly have unionization if you were on a bigger scale, and so on.

I think that is a point you made which is very well taken. I think most employers would have more sense than to do something that silly.

Mr. SLOOP. That is very true.

Senator NICKLES. Mr. Panaro.

Mr. PANARO. In response to your question about what bill we would support, probably our favorite would be the one that you have introduced, particularly if we could get the age limit lifted to 19 rather than 18, because in the retail baking industry we have another problem with the Wage and Hour Division's Hazardous Occupational Order No. 11, which prohibits people 16 and 17 from working around power-driven bakery equipment. So, that is a limitation.

Then, after that, we would prefer Senator Hatch's. Senator Percy's would be our last choice.

Senator NICKLES. I see. Well, part of the reason for the 18 is because, as you know, the act does prohibit individuals 16 and 17 from working in an abundance of jobs, many of which are questionable as far as their potential hazard. I worked in a place; I guess, legally, I was illegal to work there, you know, for years.

You mentioned that the student thing has not been much of a help primarily because of the redtape, as Mike mentioned. Do you think we should abolish that part of it, regardless of what we do? It is a dubious distinction or value, in my opinion. I would agree with Mike that a lot of people, when it comes to filling out another form, are not going to want to send one in.

Mr. PANARO. Well, the first thing that ought to be abolished is the limitation on six students. Now, under the 1977 amendments, that application or certification form was supposed to have been simplified to require nothing but name and address and time in business. Apparently, that simplified form has not filtered down, because many of our people report filling out the longer form. So, the form should definitely be simplified.

Senator NICKLES. One final thing. Mr. Suggs, you made a statement that I think I will remember and that has not been stated. You said, "Give us a chance." During the last few days, I have said "opportunity," but you were saying, "Give us a chance." Regardless of what the price was, that was not your primary concern; it was getting involved in the marketplace and giving that person a chance to pull himself up, as you and others have done.

I was also impressed by the fact that you said your daughter is going to a university.

Mr. SUGGS. Yes.

Senator NICKLES. So, not only did it raise you up, but you have started a whole chain of events that will enhance the economic livelihood of many people. I really think you are to be commended for it and I loved the phraseology that you used as far as "let us give some of these young people a chance."

A lot of the argument that we have been debating back and forth has been about whom this will benefit. Is it going to benefit McDonald's or is it going to benefit the young people? My purpose in being interested in promoting this legislation does not have anything to do with "XYZ" company; it has something to do with trying to give people a chance. So, I appreciate that.

Mr. PANARO. And I think the fact that McDonald's is not here and we are says something, too.

Senator NICKLES. Well, listen, we appreciate your input in this area. As you can tell, there is a very divided philosophy on this particular issue; it is very controversial. But at least for the unemployed teenagers, it is an issue where it is time to make a change.

I appreciate your input very, very much. Thank you.

Ladies and gentlemen, the record will be kept open until April 10, and if any persons wish to submit additional information, we will be happy to receive it.

At this point I order printed all statements of those who could not attend and other pertinent material submitted, for the record.

[The material referred to follows:]

Statement for the Record of

MAUDINE R. COOPER
VICE PRESIDENT
NATIONAL URBAN LEAGUE, INC.

before the

Subcommittee on Labor
Senate Committee on Labor and Human Resources

on
Subminimum Wage Proposals

Dirksen Senate Office Building
Room 4232

March 24 & 25

The Office of the Vice President for Washington Operations of the National Urban League takes this opportunity to submit for the record testimony on current subminimum wage proposals. The National Urban League is a non-profit community service organization. Through our network of 116 affiliates in 34 states nationwide we seek equal opportunities for the poor and minorities in all sectors of our society. Because of this commitment to the disadvantage, we welcome this opportunity to forward comments on an issue so relevant to the future of our constituents.

The National Urban League has opposed an expanded youth differential since it was first discussed seriously in the 91st Congress. Although subminimum wage legislation has been introduced in each Congress since 1971, none of it has become law -- for reasons we believe are still relevant and sound.

The present proposals (S.348, S.340 and S.658) embody the youth differential concept based on one major assumption: the cause of high youth unemployment is the minimum wage. The bill permits a subminimum wage rate for all youth 16-19 years for a specified period, eg. six months. Proponents allege that employers will hire more youth if a lower wage rate is applicable and that more youth will indeed accept these lower paying jobs.

Inherent in this argument is the idea that coverage of young workers by minimum wage standards is universal and widespread. The fact is that the Fair Labor Standards Act of 1938 (FLSA) and its amendments legally exempt a large portion of young workers from coverage. FLSA permits a youth differential for "student learners," "student workers" and "full-time students." The Act also exempts retail and service establishments with annual sales under \$325,000.

The small business exemption is particularly significant when given the fact that small business is the major source of new job development. A recent MIT study (1979) on Neighborhood and Regional Change concluded that 100% of all net new jobs are created by small businesses.

According to US Labor Department data, there are about 3.9 million workers today who are legally exempted from the minimum wage -- and they are overwhelmingly young people. About 2 million are non-farm workers; 600,000 are domestic workers; 575,000 are farm workers and 800,000 are handicapped or trainees. Among the non-farm workers, 512,000 are youth working in high

schools and colleges; 279,000 are workers in other institutions, such as hospitals and 231,000 are youth working in retail and service establishments.

During FY 1979, the Labor Department authorized a total of 35,517 exemption certificates that permitted a maximum hiring of 517,303 persons at sub-minimum wages. The bulk of these exemptions applied to the hiring of full-time students. Since a total of 8 million young people, 16-19 years old were employed in 1979, it is evident that, even if the authorized certificates were fully-utilized, that only a small percentage of teenagers were employed as a result of the exemption certificates.

An in-depth Labor Department study of utilization patterns of the sub-minimum wage differential revealed that the majority of the firms that received exemption certificates failed to use most of the manhours that they were authorized. This study found that over half (56%) of the 4,615 firms that received certificates to hire full-time students at the subminimum wage in 1970 either used less than half (34%) of their authorization or did not use the exemption certificates at all (21%). Only 13 percent of the firms used 90 percent or more of the manhours they were permitted. Three-fifths (58%) of the 36 million manhours that were authorized were not used at all.

A majority of these firms (52%) explained that they were fully staffed and found that they could not accommodate as many young people as they originally expected. About one-fifth indicated they could not fill their quotas because

they could not find young people who were willing to work at these wages or that they were not satisfied with the youth they hired and had to let them go. Another one-fifth of the firms said that record-keeping and certificate restrictions hindered them from hiring more youth.

Given the fact that there is already a substantial youth differential that is underutilized by employers, there is no evidence that these same employers will create new positions on the basis of an expanded differential.

Another issue that must be raised in considering these proposals is displacement. Adult workers who are being paid subminimum wages are disproportionately black. An indepth study of the characteristics of workers paid in violation of the federal minimum wage conducted by the Workplace Standards Administration of the US Department of Labor during 1969-70 revealed that white subminimum wage workers were more likely to be young people and secondary wage earners, while black subminimum wage workers were more likely to be adults and primary wage earners. About two-fifths (37%) of white subminimum wage earners in covered establishments were 19 years and under, compared to only one-fifth (18%) of black subminimum wage earners were 39 years old. Moreover, almost three-fifths (56%) of black subminimum wage workers were primary earners, compared to only one-third (35%) of white subminimum wage earners.

Findings strongly suggest that black adult primary earners would have the most to lose from an expanded youth differential. Since such a differential would legalize the payment of subminimum wages to most young people

black adults who are currently being illegally paid subminimum wages would be the group most likely to be displaced first by young people or, at the very least, continue to be paid illegal subminimum wages. Clearly, many adults who are primary earners of families would opt to continue to receive subminimum wages rather than have no job at all. On the other hand, since the subminimum wage workers among whites are disproportionately youthful secondary earners, an expanded youth differential would tend to more likely displace other secondary youth workers among whites.

We should also be cognizant of the fact that the majority of unemployed youths -- blacks and other minorities -- are concentrated in inner city areas. These are presumably the youths targeted by the present subminimum wage proposals. Yet the fact is that the most of the jobs are no longer in central cities, but have relocated in suburban areas well outside distressed areas. It is logical to assume then that the youth who would most benefit from newly created positions would be those to whom the jobs are most accessible, i.e. white suburban youth.

Thus, a broadened youth subminimum wage is likely to have differential consequences among low-wage blacks and whites. It would most likely result (a) first, in the displacement of adults, particularly blacks, who are currently being paid subminimum wages in violation of federal minimum wage guidelines; (b) second, in the displacement of somewhat higher-paid adult

subminimum wage workers in establishments not covered by minimum wage and,
 (c) third, in the retention of adult primary earners who are willing to
 be paid subminimum wages in violation of the minimum wage provisions rather
 than have no jobs at all.

The three bills in question (S.348, S.340 and S.658) all contain provisions
 stating that substitution of youth workers for older workers would constitute
 a violation of the act. The crucial question is, of course, how will these
 provisions be enforced? How practical is it to assume that displaced
 workers can prove that they were terminated because of the enactment of a
 youth differential? How easy is it for experienced Ph.D.'s to prove they
 were denied tenure in favor of less experienced lower-salaried researchers?

The National Urban League does not support a youth differential. The
 basis of such proposals, we believe, is unstable and unsound. There is
 no evidence that a new subminimum youth differential should be enacted
 when:

- (1) legal subminimum differential for young unskilled workers
 has been in existence since 1938;
- (2) the overwhelming majority of firms have not even used the
 existing differential to hire more youths, and
- (3) if the existing differential were expanded, white, and not
 black youth would be the main beneficiaries.



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REVIEW OF SOCIAL ECONOMY

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Honorable Dan Nickles
United States Senate
Washington, D.C. 20510

4187 Blenheim Rd.
Louisville, Ky. 40207
April 6, 1981

APR 10 1981

Dear Senator Nickles:

Washington, D.C. 20510

The Senate Labor and Human Resources Committee has informed me that testimony re the proposed changes in the minimum wage floor, including your own bill, can be submitted up and thru April 10. I would like to submit the attached statement for Dr. Mount and myself and ask, that each one of us be mailed a copy of the printed hearings when they are available.

I appreciate your willingness to serve in high office and would hope to have further interaction with you on issues in the future.

With all good wishes, I remain

Sincerely yours,

Henry C. Mayer
HENRY C. MAYER, Chairperson
Committee on Public Issues

Enc. (2)

IDENTITY PAPER

ASSOCIATION FOR SOCIAL ECONOMICS

The Association for Social Economics was founded in 1941 and began publishing the REVIEW OF SOCIAL ECONOMY in 1942. The Association (ASE) is a voluntary group of professional persons engaged in economics and allied fields who are concerned with questions, within the proper purview of economics, of human dignity, social responsibilities, liberty, freedom of choice, justice, order, equity, security, power and values. It, therefore, welcomes as members all persons, irrespective of political philosophy or religious persuasion, who share ASE's conviction that the insights from economics and allied sciences are intrinsically connected with the well-being of all persons and all groups in a free society. ASE's doors are equally open to all who espouse its intellectual values of honesty in research, reasonableness in discussion, and emphasis on the primacy of the human person. All members also share a common concern for the ethical and social implications of their findings and recommendations.

The Association's aims include:

- 1) fostering research and understanding in the area of social economy;
- 2) promoting the exchange of ideas and insights among its members across disciplinary lines;
- 3) stimulating constructive dialogue with other professional persons in academia, business, labor and government.

In pursuit of these aims, ASE espouses no ideology, takes no advocacy positions nor serves as a tool for any special interests. From its beginning, this Association has fostered analysis of current socio-economic issues in both their theoretical and practical dimensions. As an additional service, ASE is committed to assisting its members in making their professional expertise and views available in public and private forums where social priorities and public policies are discussed and evaluated.

As the latest expression of this commitment, the Association for Social Economics has established the Committee on Public Issues to aid its members in contributing their insights and expertise to the process of evaluating and formulating policy recommendations and legislative implementations of current socio-economic issues. In this role, however, the Association does not endorse the member's views or ideology. But it does assert that the member, using this Committee and thus identifying himself or herself as an ASE member, espouses the previously-cited values and concerns..

COMMITTEE ON PUBLIC ISSUES

Henry C. Mayer, Chairman

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STATEMENT ON INTRODUCED BILLS TO CHANGE MINIMUM WAGE FLOOR FOR TEEN AGERS BY HENRY C. MAYER, CHAIRPERSON, COMMITTEE ON PUBLIC ISSUES, ASSOCIATION FOR SOCIAL ECONOMICS AND ERIC MOUNT, PROFESSOR OF RELIGION, CHAIRPERSON OF DIVISION OF SOCIAL STUDIES, CENTRE COLLEGE. DANVILLE, KENTUCKY.

We appreciate the opportunity to comment on the three bills which are now before the Committee. We share the members' concern about the large numbers of unemployed youths. One of us (Mayer) served on the Employment Committee of a Kentucky Task Force on Welfare Reform; the other (Mount) is an ethicist whose course in social ethics deals in part with poverty, unemployment and the welfare system. We also share the conviction expressed by Senator Charles Percy that something must be done about this unemployment. In fact, we feel that something must involve more than the search for legislative remedies since, in fact, some of the social effects of unemployment affect the quality of life not only for these unemployed youths but for the rest of us as well. We would like to see the members of this Committee as well as the new Administration exercise the unique opportunities they have for moral leadership.

Senator Percy seeks to assure us that these legislative proposals are made in good faith. We can assure him that we have no desire to impugn the integrity of any of the senators who have advanced these bills. We wonder, however, about the advisability of offering young people less in a society where both the larger society and the peer group exert strong pressure to want and consume more than can be reasonably secured through the present minimum wage floor. The anti-social behavior which often accompanies unemployment may be in part an outcome of a perception about the fairness of pay scales in many low paying jobs.

It seems to us that Senator Nickles has aptly distinguished between teen-aged workers or seekers of work who are 16 and 17 years of age and those who are 18 and 19. It is also important to note the difference between youths who live at home and those youths who may be the principal breadwinners in new families. It would be highly questionable to give incentive to employers to substitute lower-paid non breadwinners for breadwinners on their payrolls or to encourage the assumption that youth employees are not breadwinners.

We feel that there are too many proposals being made to weaken the quality of lives of the working poor which are neither socially useful nor morally sound. Since the prevailing tone of almost all consumer advertising over mass instruments of communication consistently pressures people to want to like live/upper middle class persons, it seems especially harsh for this Administration to insist that the primary sacrifices to control inflation have to be made by the middle class poor. The present legislative proposals are but another instance of such sacrifice, and we feel that if enacted, they should provide that the extra profits accruing, if such there be, should be so allocated that the workers would share in them.

If that is not done, we call on this Committee to develop some other alternatives than the bills whose merits we have briefly assessed.

Testimony of
William J. Grinker
Before the
Labor Subcommittee
of the
Senate Labor and Human Resources Committee
Hearings to Amend the Fair Labor Standards Act
U.S. Senate
March 24, 1981

Manpower Demonstration
Research Corporation
3 Park Avenue
New York, New York

Mr. Chairman, my name is William Crinker, and I am President of the Manpower Demonstration Research Corporation (MDRC), a nonprofit corporation established to oversee and test new social policy initiatives on a demonstration basis. One of those is the Youth Incentive Entitlement Pilot Projects (YIEPP), established by Congress as part of the Youth Employment and Demonstration Projects Act of 1977. My remarks today will be directed primarily towards the possible use of a youth differential, or "subminimum" wage, in treating problems of youth employment based on some of our experience with YIEPP. As part of the systematic study of that demonstration, research was carried out on the role and responsiveness of private business in providing work experiences for disadvantaged teenagers. Especially relevant are some of the findings on the participation rates of private employers who were allowed to employ youths at different subsidy levels.

The YIEPP demonstration seeks to test whether the offer of year-round minimum-wage work experience to economically disadvantaged 16-19 year olds -- in return for the youth's agreement to remain in high school, or return to school if a drop-out -- contributes to high school completion and to improved education, employment and earnings in the future. Youths were eligible for participation if family income was below the poverty line, or if the family received welfare. In the 17 communities where the demonstration operated, from March 1978 through August 1980, all eligible youths who wished to participate were to be assured work, part-time during the school year and full-time in the summer. They were required to adhere to standards of performance and attendance in school and at their worksites in order to continue parti-

cipating. At the conclusion of the demonstration, the sites were given the option of continuing operations at a reduced level through August of 1981 to hold the structure and positive features of YIEPP in place, and all chose to do so.

The CETA prime sponsors which operated the program were authorized to solicit work sponsorship agreements from public and nonprofit agencies, and, for the first time in a large-scale youth employment program, from for-profit businesses in their communities. The legislation allowed a subsidy of up to 100 percent of the youths' wages in the private sector, and all prime sponsors but one elected to offer that. The legislation specified that work experience positions created were to be meaningful and not "make-work," and were not to displace employment opportunities for other workers. To make participation more attractive, the prime sponsors managed the youths' payrolls, so that individual work sponsors did not have the paperwork burden of payrollling youths or figuring out fringe benefit rates.

Over the course of the demonstration, nearly 76,000 youths enrolled and were assigned to jobs. This represented a 50 percent participation rate of those eligible to join during the first year of the program. Participants were primarily minority. Blacks and Hispanics were three times more likely to participate than whites; they comprised almost 80 percent of all youths who enrolled. This would seem to indicate that these teenagers had a strong desire to work when jobs were available.

Early findings, based on surveys in four YIEPP communities and four matched comparison areas which did not have a demonstration program, point to the program's strong, positive impact on both educational and

employment outcomes. The demonstration encouraged youths to return to school and to stay there. Compared with youths at the comparison sites, YIEPP led to a 63 percent increase in the return-to-school rate of drop-outs, and a 15 percent decrease in the drop-out rate for youths already enrolled in school.

The subsidized work experience positions also created a substantial employment effect. The employment rate of 16-19 year old white youths at the demonstration sites in spring 1979 was 53 percent compared with 44 percent at the comparison sites. More dramatically, the employment rate for black youths was more than twice as high in the demonstration sites, 54 percent compared with 24 percent at the comparison sites. Similar percentage increases occurred for Hispanic youths. Thus, the program raised the employment rate for minority and poor white youths to the nationwide employment level of all white youths in the same period, and to twice the national employment rate for minority youths. The program, in other words, targeted toward a heavily disadvantaged youth population, appears to have had a very significant effect on the group of unemployed teenagers who suffer the worst in the labor market.

Over the demonstration period, participating youths worked 80 percent of their job hours with public and nonprofit agency work sponsors, and 20 percent with private businesses. A comparative study of the quality of the work experience found that the great majority of worksites (87 percent) were of adequate or better quality, and that only 13 percent were of inadequate quality. There were very few differences in quality between private sector worksites and those in the public and nonprofit sector.

While private companies accounted for only one-fifth of the youths' job hours, they represented over one-half of all the work sponsors recruited for the demonstration, comprising some 6,000 firms. The differences in proportions resulted primarily from the fact that the average business sponsored only one or two youths at a time, while public and nonprofit sponsors more typically employed two to five enrollees. Most of the private sector work sponsors were neighborhood small businesses, with nearly two-thirds employing fewer than ten full-time regular employees. Some 47 percent of all participating businesses were retail shops, another 29 percent were service establishments, and 10 percent were manufacturers. Most of the youths assigned to private businesses worked as clerks (34 percent), food service workers (14 percent), in building maintenance and repair (12 percent) or in sales jobs (10 percent).

As I have mentioned, all prime sponsors save one opted to offer private employers the maximum subsidy authorized by the demonstration legislation, a full 100 percent subsidy of the youths' hourly minimum wage. This decision reflected widespread apprehension among demonstration prime sponsors that, at lower subsidy levels, it would be extremely time-consuming, and costly in staff resources, to recruit a pool of private sector work sponsors. Since this full subsidy was substantially greater than the more typical 50 percent subsidy used in on-the-job training programs, and since the question of business responsiveness at different subsidy levels is of wide policy interest, a special wage subsidy variation experiment was launched at two program sites during the last months of the demonstration.

The experiment was established at the Baltimore and Detroit sites in early 1980, at a time when these sites had an authorization to open up the program to disadvantaged youths in new neighborhoods, outside the original target areas. In Detroit, job developers listed all private employers until over 1,000 had been identified. These employers were then randomly allocated into two groups: one to be approached by job developers with the same full 100 percent wage subsidy offer that prevailed during the entire demonstration, and the other to be offered a 75 percent subsidy. In Baltimore, employers on one side of a major dividing street were offered the full subsidy; those on the other side were offered a 50 percent subsidy.

To reiterate, in terms of wage costs that employers would face in reaching a decision, these three groups of employers at 100, 75, and 50 percent subsidy, were asked to contemplate direct wage costs of zero, 25 percent of the minimum wage, or 50 percent of the minimum wage, with youths to be paid the difference from demonstration funds. Thus, the experiment did not test the effects on participation of lower subsidy levels, which would have had the effect of reducing the employers' costs by only 15 or 25 percent of the minimum wage, as has been proposed in the youth differential legislation.

We then measured what proportion of employers who were offered each of the subsidy levels agreed to sponsor youths. The findings are fairly striking. Controlling for differences between firms in the two communities, and between firms in each of the subsidy groups, the participation rates of businesses at the different subsidy levels were as follows:

<u>Wage Subsidy Level</u>	<u>Site</u>	<u>Participation Rate</u>
100%	Baltimore & Detroit	18%
75%	Detroit	10%
50%	Baltimore	5%

Before discussing the implications of these participation rates in relation to the possible level of employer demand for minority and poor youths under a minimum wage differential, I should offer some cautions about simple generalizations, since the circumstances of the experiment differed in several ways from the job development situation in the larger demonstration. Some of these circumstances probably tend to reduce the participation rates, compared with the full demonstration, and others probably would increase those estimates.

On the one hand, the period of job development in the experiment was only five months, compared to two-and-a-half years of activity with businesses in the rest of the demonstration. Also, any employers who had already sponsored YIEPP participants were excluded, although these were relatively few, since experimental job development was primarily in new target areas. Third, the experiment was launched in early 1980, when the economy was in a downturn, especially in Detroit. All of these factors may have somewhat depressed participation rates during the experiment.

On the other hand, the estimates are for businesses that agreed to participate, since the employers were interviewed before most had actually started to employ youths. Some of them would probably not have become actual sponsors. Also, despite close monitoring, there is some indication that Baltimore and Detroit job developers excluded some businesses from their lists, either because they were inappropriate work

for teenagers (bars and liquor stores, for instance), or because past experience had shown some kinds of employers to be harder to recruit than others (such as large manufacturers). These exclusions may have contributed to an inflation of the participation rates over the possible take-up rates of all private employers in the target areas. On balance, however, it is probably the case that the experiment's findings were pressed in the direction of reducing the participation rates, so that the findings represent a lower bound of probable employer participation over a longer term.

With these caveats in mind, I would suggest that the findings point to a relatively modest employer demand for poor, primarily minority 16-19 year olds, even at very high levels of subsidy and low employer costs. First, the 18 percent take-up rate by employers who were offered full-wage subsidy and minimal paperwork seems to indicate that non-monetary considerations are a first priority when it comes to an employer deciding whether to hire youths. Our findings show that the great majority of firms that declined to sponsor demonstration enrollees reported that they simply did not have enough work to keep the youths busy, that the work demanded higher skills than these youths could offer, or that the work was too dangerous. Furthermore, some of these employers would probably have displaced other workers by taking on a subsidized enrollee, and some of those displaced might have been other disadvantaged youths, not enrolled in the program. We are still not prepared to speak with certainty on the actual levels of displacement. A study to be completed in June will examine the subject further, but work to date indicates that the better the quality of the job, the more likely it is that someone

else will be displaced from that job.

A second major finding is that, at high levels of subsidy, 50 percent and above, employers appear quite sensitive to the level of wage cost they face. While the experiment did not test lower subsidy levels, the relationships between participation rates at the higher subsidies make it reasonable to speculate that participation rates at a 25 percent subsidy (an employer wage cost equivalent to the 75 percent youth differential) might have been on the order of 2-3 percent.

Now, if one makes the simple extrapolation that as many as 2 percent of all private employers nationwide might agree to a 25 percent subsidy level, it appears that on the order of 50,000 to 60,000 disadvantaged youths might be offered a job. This could be even higher, since demonstration work sponsors could only hire youths on a part-time basis during the school year, and the take-up rates for employers hiring youths full-time might be somewhat higher. (However, 16-19 year old youths not in school, are primarily school drop-outs, and they might not be considered as "attractive" to hire as youths who are in school or drop-outs who have returned to school.)

Several other considerations would constrain this rough estimate and lower the universe of available jobs. First, employer participation in the demonstration resulted from active job development at the local level, where CETA prime sponsors or local business-related organizations (such as the National Alliance for Business or The Chamber of Commerce) recruited employers and referred youths for their consideration. Under the conditions of a youth differential minimum wage, this active labor exchange would not be in place. Second, most of the private businesses

nationwide are not accessible to disadvantaged minority youths in central cities and rural areas. Quite likely, considerably less than half the establishments are really feasible as employment possibilities for these youths. Third, as I have mentioned, there would be some degree of displacement and substitution involved, reducing the net gains to disadvantaged youths. Fourth, employers in the YIEPP demonstration had little paperwork to contend with, which would not be the case for youths hired directly on employers' payrolls at the subminimum wage.

These constraints are all in the context of a job creation program targeted to disadvantaged teenagers. A youth differential minimum wage, of course, would apply to all teenagers. Since this would put poor youths in competition for jobs with better-off youths (including high school graduates), employer demand for them would undoubtedly be further diminished.

While our findings do not address these larger considerations, it would appear reasonable to postulate that all these factors combined would cut by half or more the number of jobs that might arise from an employer participation rate of 2-3 percent under a 25 percent wage subsidy. This would indicate only a modest employment increase for these youths -- central city and rural minority teenagers -- who are the ones with the lowest employment rates.

Our findings of low participation rates in the face of wage costs of \$1.65 or less, and the extrapolation to higher employer costs which I have just advanced, tend to complement the very preliminary findings which have emerged from the Targeted Jobs Tax Credit. These early estimates also indicate fairly minimal employer response to a tax credit

for hiring economically disadvantaged youths.

Mr. Chairman, my testimony has clearly not addressed several of the broader benefits which have been put forth on behalf of a youth differential minimum wage, including possible effects on wage inflation, or the overall increases in youth employment that might result from bringing youth wage levels closer to what employers might regard as the value of teenage labor. Nor do our findings address the difficult problem of predicting what proportion of low-wage adults might be displaced by subminimum-wage youths. The very uncertainty of so many aspects of this policy approach would seem to call for a large-scale test of its impacts before it became an ongoing part of our labor standards. From the vantage point of the youths most in need of employment, however, our findings clearly imply that the net number of new jobs that would flow to these youths under a differential minimum wage that is not targeted to needy youths is likely to be very modest. From a policy perspective then, whatever other benefits a subminimum-wage may hold, it should not be viewed as a panacea for a severe problem: the lack of employment opportunities for minority youths. That problem is I believe, amenable to solution, but only by much more direct targeting on the specific needs of that group.

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NEW YORK COUNTY LAWYERS' ASSOCIATION
14 VESSEY STREET
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March 13, 1981

Senator Edward M. Kennedy
U. S. Senate Committee on
Labor and Human Resources
United States Senate
Washington, D.C.

Dear Senator Kennedy:

On behalf of the Labor Relations Committee of the New York County Lawyers' Association, we enclose two (2) copies of a report in opposition to the proposed subminimum wage.

As is reflected in the report, the Committee is opposed to any proposed subminimum wage. We believe the proposed subminimum wage would not serve to increase employment amongst teenage minorities, lacks any significant statistical support, and offends a long history of enlightened legislation which guarantees some modicum of a living wage to those at the lowest end of the economic scale.

Respectfully yours,

Lawrence M. Monat
Lawrence M. Monat, Chairman
Labor Relations Committee

John P. Flannery II
John P. Flannery, II, Member
Labor Relations Committee

Joan Stern Kiok
Joan Stern Kiok, Member
Labor Relations Committee

encl/

REPORT OF THE LABOR RELATIONS COMMITTEE,
NEW YORK COUNTY LAWYERS ASSOCIATION

ON

THE PROPOSED SUBMINIMUM
WAGE FOR TEENAGERS

SUBMITTED TO

THE

U.S. SENATE COMMITTEE ON LABOR

AND

HUMAN RESOURCES

March 13, 1981

Proponents of a sub-minimum wage for teenagers (ages 17-19) claim that it will ease the disproportionate unemployment suffered by non-white teenagers. It will not. It will almost certainly cost older workers the relatively higher paying jobs that they now have. More importantly, it will likely hurt non-white older workers more. It cannot guarantee that the jobs lost by older workers, white or black, will be filled by non-white teenagers; indeed, our experience tells us that white teenagers will get the jobs. Finally, and for this reason alone the proposed subminimum wage should be rejected; it contravenes fifty years of judicial decisions and state and federal legislative deliberation.

That is the virtually unanimous view of the members of the Labor Relations Committee of the New York County Lawyers Association,* a Committee comprised of experienced labor lawyers who represent both management and labor. The Committee recognizes that this proposal would have nationwide effect. Since the Association is based in Manhattan, its committee members are primarily concerned with the proposal's effect on urban teenagers.

It is the committee's considered view that the proposal that a subminimum wage for teenagers will improve the disproportionate unemployment suffered by non-white teenagers is contradicted by labor statistics, common economic sense, and a 50 year history of judicial discussion and enlightened legislation including the Fair Labor Standards Act (the "FLSA").

* This report was prepared by a subcommittee, and was approved in substance at a meeting of the full committee held on February 24, 1981.

Labor statistics demonstrate that, although there is now a minimum wage for teenagers, disproportionately fewer non-whites are employed.

Common economic sense tells us that even if teenagers join the workforce, there is no way to assure that they be non-white.

Judicial discussion and legislative enactments have argued for more than fifty years against arbitrary labor standards unfairly applied to children, white or black, who are unable by their age and concomitant lack of skill to bargain as economic equals to fulfill the needs that they have.

Thus has this Committee concluded it is opposed to a subminimum wage. A summary of the Committee's findings, namely (1) the history of state and federal legislation, (2) statistics underscoring the nature and extent of non-white teenage unemployment, and (3) the effect of the proposed subminimum wage, follow:

I. Brief History of the Minimum Wage Movement
in State and Federal Legislation

The response to the low wages paid in our factories was a movement for a minimum wage. The movement was directed primarily at children and women because the Supreme Court had invalidated statutes regulating the working hours for males, Lochner v. New York, 798 U.S. 45 (1905) but not those for women, Muller v. Oregon, 208 U.S. 412 (1908), and because it

was believed that, while unions opposed a minimum wage for male adults, they would not oppose one for those too young or unskilled to join.

By 1923, almost a third of the states enacted minimum wage laws for children or women or both but the Supreme Court in Adkins v. Children's Hospital, 261 U.S. 525 (1923) virtually stopped this trend by holding that a minimum wage offended due process because any wage fixed by law ignored the value of the services rendered.

Chief Justice Taft expressed the view in his dissent that would ultimately be adopted more than ten years later:

"Legislatures in limiting freedom of contract between employee and employer by a minimum wage proceed on the assumption that employees, in the class receiving least pay, are not up on a full level of equality of choice with their employer and in their necessitous circumstances are prone to accept pretty much anything that is offered. They are peculiarly subject to the overreaching of the harsh and greedy employer. The evils of the sweating system and of the long hours and low wages which are characteristic of it are well known." 261 U.S. at 562.

In 1916, Congress enacted Legislation under its commerce and taxing power that prohibited interstate commerce of anything extracted from mines or factories that was the result of child labor. But the Supreme Court held in Hammer v. Dagenhart, 247 U.S. 251, (1918) that the child labor law was "repugnant" to the Constitution and transcended Congress' authority over commerce because the minimum wage was a "purely

local matter to which the federal authority does not extend".

A State Statute setting a minimum wage was finally upheld by the U.S. Supreme Court in West Coast Hotel v. Parrish, 300 U.S. 379 (1937); the Court overruled its earlier decision in Adkins v. Children's Hospital, *supra*, characterizing it as "... a departure from the true application of the principles governing the regulation by the state of the relation of employer and employed". 300 U.S. at 397. Chief Justice Hughes declared:

"The exploitation of a class of workers who are in an unequal position with respect to bargaining power and are thus relatively defenseless against the denial of a living wage is not only detrimental to their health and wellbeing, but casts a direct burden for their support upon the community. What these workers lose in wages the taxpayers are called upon to pay. The bare cost of living must be met."

Justice Hughes continued,

"The community is not bound to provide what is in effect a subsidy for unconscionable employers. The community may direct its law-making power to correct the abuse which springs from their [the employers'] selfish disregard of the public interest." 300 U.S. at 399.

On May 24, 1937, about two months later, President Roosevelt asked Congress to enact a wage and hour law under the commerce clause. A Fair Labor Standards Bill was offered in each house and about one year later, the Fair Labor Standards Act ("FLSA") became law.

United States v. Darby, 312 U.S. 100 (1941), upheld the constitutionality of the FLSA and overruled Hammer v. Dagenhart, *supra*, dismissing its prior decision as a "departure from the

principles which have prevailed in the interpretation of the commerce clause both before and since the decision and that such vitality, as a precedent, as it then had has long since been exhausted," 312 U.S. at 116-117. United States v. Darby, supra, approved the motive and purpose of the FLSA "to make effective the congressional conception of public policy that interstate commerce should not be made the instrument of competition in the distribution of goods produced under substandard labor conditions, which competition is injurious to the commerce and to the states from and to which the commerce flows (emphasis supplied)". 312 U.S. at 115.

The FLSA was amended several times, each time to increase the minimum wage and to extend its coverage to more workers.

Before 1966, the FLSA did not cover most poor wage earners (see table 1).

TABLE 1
FLSA COVERAGE AS COMPARED
WITH POVERTY EARNINGS*

Coverage of Industries Under FLSA	% Range of family heads with annual incomes under \$3,000 (poverty earnings)
Full	5-10%
Partial	8-14%
None	33-49%

* See House Report No. 1366, 89th Congress, 2d Sess. (1966); see also Senate Committee Report No. 145, 87th Cong., 1st Session.

The 1966 Amendments therefore sought to raise earnings above the poverty level by escalated standards.

The 1966 amendment sought to protect more workers. The volume of business constituting "interstate commerce" was lowered. Some state employees, those who worked for a political subdivision of a state, those who worked in a hospital, or educational institution, or a railway, or carrier, or in agriculture, were added. By 1966 the FLSA covered about 37 million workers.

The 1966 amendments drastically changed the character of the FLSA. The FLSA no longer was a set of standards to protect workers; it was a weapon to war on poverty.

II. Non-white Teenage Unemployment

Non-white teenage unemployment is manifest in the proportions that non-white teenagers fail to participate in the labor force and, to the extent that they do participate, in the proportions that they suffer unemployment.

A. The Labor Force

In 1978, about 64% of the population 16 years old and older participated in the labor force. That is a 5% increase since 1948. The rate of participation of men declined by 10 percentage points since 1948 and the rate for women increased by more than 16 percentage points over that same period (see table 2).

TABLE 2
COMPARISON OF FEMALE-MALE PARTICIPATION

<u>Year</u>	<u>Female (% Participation)</u>	<u>Male (% Participation)</u>
1948	32.7%	87.0%
1978	50.0%	77.9%

But non-white youth participated less, much less, than white youth in the labor force (see table 3).

TABLE 3
COMPARISON OF WHITE (W) AND
NON-WHITE (N) MALE PARTICIPATION

	<u>Ages 16 - 17</u>		<u>Ages 18 - 19</u>	
	<u>W</u>	<u>N</u>	<u>W</u>	<u>N</u>
1948	51.2	59.8	76.2	77.8
1978	55.3	33.2	75.3	59.5

You would expect the relatively low income of the average black family to encourage more, not less, participation by blacks. Some argue black participation is less, not more, because blacks give up the search for work and "drop out" of the labor force because of the discrimination they encounter.

B. Unemployment

Of the non-white youth in the work force, more are unemployed. As you well know, the labor force includes the unemployed as well as the employed. In the early 50s and late 60s the unemployed were less than 4% of the labor force. By 1978,

unemployment swelled to 6%. But 6% is about one-third teenage unemployment (16-19 years), at 16.3% in 1978. And it is about one-sixth non-white teenage unemployment, at a whopping 36.3% in 1978. This deplorable condition did not come to pass in a single year, 1978; through the 1970s, unemployment rates for black teenagers have worsened and at a disproportionately faster rate for non-white teenagers as compared with their white counterparts (see table 4).

TABLE 4
EMPLOYMENT INDICATORS FOR TEENAGERS
(AGES 16 to 19) BY RACE, SELECTED
YEARS, 1970 to 1979

	1970	1973	1975	1977	1978	1979
Measure Unemployment Rate						
Non-white	29.1	30.2	36.9	38.3	36.3	33.5
White	13.5	12.6	17.9	15.4	13.9	13.9
Employment-Popu- lation Rate						
Non-white	28.9	28.0	24.6	23.7	26.5	27.1
White	44.5	49.0	46.6	50.2	52.5	52.7
Labor Force Parti- cipation Rate						
Non-white	40.5	40.2	39.0	38.3	41.6	40.8
White	51.5	56.0	56.7	59.4	61.0	61.2

Economists instruct us that we can expect youth unemployment to decline during business expansions. In the recovery from the 1974-1975 recession, white teenage unemployment did decline but non-white teenage unemployment did not decline.

C. The Effect of the
Subminimum Wage

There has been support for a subminimum wage for teenagers in the labor force. It is argued that this subminimum will decrease the unemployment of non-white teenagers. Economist Milton Friedman, among others, argues that the current legal wage floor creates unemployment because the unemployed workers' value to employers is less than the minimum set by Congress. It is assumed that employers pay workers according to their marginal value product. According to this theory, when wages are raised by a new legal minimum, then teenage youth are laid off and therefore unable to find work elsewhere because their marginal product is less than the minimum wage.

There is every reason to believe that the marginal value product of these teenagers is greater than the wage now paid, but even if it were not, employers should nevertheless bear the cost of a "decent" wage for the reasons Chief Justices Taft and Hughes said.

Some retail and fast food stores strongly favor a subminimum because they would like to substitute incumbent older workers that are unskilled with teenage workers whom they could pay a subminimum.

While proponents of the subminimum wage claim a subminimum will work miracles, there is no reason to believe it will make any difference in teenage unemployment. There can

be no guarantee that the teenager who is substituted will be non-white and why should a subminimum wage change what is true today, without a subminimum, namely that white teenagers are hired while non-white teenagers are not.

This Committee is particularly concerned about what this proposal means for our cities. If the substituted teenager is non-white, there is every likelihood that he is substituting for a formerly higher paid non-white older worker. The implications of this substitution are obvious. Businesses would enjoy a net profit gain because they would pay their teenage employees less. The lower income group, that the subminimum is purportedly created to help, would lose the income that the higher paid mother or father earned because she or he would be substituted by a son, perhaps in the same family, who would be paid subminimum wages.

The proposed subminimum wage is particularly reprehensible when one realizes that even the current minimum wage of \$3.35 has less purchasing power than the minimum wage of \$1.40 had in 1967.

III. Conclusion

It is for the reasons plainly stated above that this Committee does strenuously oppose any subminimum wage.

Respectfully Submitted,

Lawrence Monat, Chairman
John P. Flannery, II
Joan Stern Kiok

Subcommittee on Proposed
Subminimum Wage

-10-

STATEMENT OF
LABORERS' INTERNATIONAL UNION OF
NORTH AMERICA, AFL-CIO

Before the Senate Committee on
Labor and Human Resources

April 7, 1981

* * * *

My name is Robert E. Powell and I am First Vice President of the Laborers' International Union. Today I am appearing on behalf of General President Angelo Fosco and the Laborers' International Union which represents some 600,000 workers across the nation employed in construction and other industries. On behalf of these 600,000 men and women -- 40 percent of whom are minority and 15 percent of whom are Hispanic -- I urge you in the strongest possible terms to reject the so-called "youth subminimum wage" proposal.

The current proposal would allow employers to pay youths between the ages of 16 and 19 seventy-five percent of the current minimum wage of \$3.35. Contrary to the self-serving rhetoric -- and I emphasize the words "self-serving" and "rhetoric" -- the youth subminimum wage would decrease employment opportunities among minorities and those in the inner city; it would inject a new form of discrimination into the employment scene; it would create an age, race and sex ghetto for low wage, low skill workers; it would throw many workers now working onto the welfare rolls and, finally, it would allow employers to gouge a few pennies more

from low wage workers who can least afford it.

As everyone knows all too well, the youth subminimum wage was devised and is being pushed by employers and various business associations such as the Chamber of Commerce. Indeed, the proposal in some circles is referred to as the "McDonald's Wage". Their reasons for urging this proposal are simple and stem directly from their own self interest -- that is, it will allow employers to increase profits by lowering wages. But those business groups who are acting out of their own self-serving economic interests in pursuing a youth subminimum wage have formulated a public relations campaign to justify the proposal which cloaks its true purposes. They have loudly proclaimed that their only interest is increasing job opportunities for minority youth and providing the black inner-city teenager with job training so that he or she may grow into a productive, fully employed, adult worker. I am sure many well-meaning people who are committed to aiding minority youth have sincerely bought this line. I am not attacking their motives. But I am not convinced that the Chamber of Commerce and the whole host of other employers who are pursuing this proposal are doing so out of a desire to assist and better minority youth. I believe that they are doing so to benefit themselves economically at the expense of workers whether they be minority, youth, adult, male or female.

It is abundantly clear who will benefit from this proposal -- the business community. And at whose expense will these benefits

be reaped? They will be reaped at the expense of the many needy workers who will lose their jobs. And it will not create new jobs for teenagers, minority or otherwise, but rather will result in their obtaining jobs at the expense of their older brothers, their older sisters, and their older parents, particularly the working mother. It will be the 10.6 million workers now employed at or below the minimum wage who will suffer the most. And who are these 10 million workers? They are already the workers with the least skills; they are minority workers; they are inner-city dwellers; they are female. In fact, two-thirds of the workers paid the minimum wage are female, many of whom are heads-of-households with children to support on one income. And seventy percent of the nation's minimum wage workers are adults who have family responsibilities. I would challenge any member of this Committee or any one of the businessmen who are pushing a subminimum wage to support themselves, much less a family, on \$536 a month -- which is what a minimum wage worker employed 40 hours a week will earn.

It is these workers -- the working mother, the female heads-of-households, the unskilled minority adult worker -- who will lose their jobs to teenagers if this proposal is enacted. Employers will have every incentive to substitute subminimum wage youth workers for these 10 million workers who are now employed at the minimum wage level. And what will happen to these adults who lose their minimum wage jobs? They do not have higher skills or skill flexibility which would allow them the mobility to shift

either up or over into other jobs. Moreover, there just are not enough job opportunities in the inner cities and poverty areas where many of these low wage workers are found to allow them to find new jobs. The fact is that they will be forced onto the unemployment line and the welfare rolls. I fail utterly to see how workers of any category will benefit, but I see clearly how many employers will benefit from a subminimum wage.

And not only will the subminimum wage have a devastating effect upon the low-wage adult worker, there is absolutely no evidence that it will increase the employment rates for minority youth or provide them with the type of on-the-job training that will increase their skill levels as adult workers. The fact is that the lack of jobs for minority and inner-city youth are caused not by the minimum wage but by other general economic and business factors. The blame should be laid at the feet of unusually high interest rates, recurring recession, declining consumer purchasing power and the eroding economic and tax base of the cities. It is these factors -- not the minimum wage -- which operate as constraints on an employer's ability to expand operations, create more jobs and hire more workers. Indeed, during the Nixon Administration the Department of Labor established a commission to study the relationship of the minimum wage to youth employment. The 1970 commission found that the minimum wage did not create youth unemployment and concluded that "the most important factor explaining changes in teenage employment and unemployment has been

general business conditions."

Not only is it a myth that the subminimum wage will increase the number of jobs for youths, it is also a myth that these jobs serve as valuable training ground for young workers. They simply do not. While no one begrudges the experience gained on the first job a person has, there is no substitute for development of meaningful skills through a competent training program. The simple fact is that low wage jobs in service industries and the like are not the substitute for long term employment with skills training and career development.

Finally, the most damaging consequence of the youth subminimum wage is that it will have the effect -- both in principle and in practice -- of turning the clock back on the substantial progress which has been made in this country toward eliminating physical, racial and sexual traits as employment factors. The trade union movement has been built on the proposition of the same rate of pay for the same job. There was a time, within our memories, when a black worker performed the same job alongside a white worker and was paid a lesser wage just because he was black. We are still in an economic world where female workers are denied access to certain jobs because they are "mens' jobs". There was a time when hiring, assignments, promotions and wages were all dependent on the age, the national origin or the religion of the worker. Pinning employment prospects to any of these factors is today illegal even though we know full well that the reality does not

always live up to the law. But it is a mark of our advancement toward social and economic equality that this nation is trying to eliminate these discriminatory employment barriers. It is a mark of a just society. The proposal to create a youth subminimum wage is a step backward and is a step away from equal treatment and fairness. A subminimum wage will create a low wage ghetto for teenagers, most of whom are minority and most of whom are inner-city dwellers. No matter how much the sponsors may protest to the contrary, this subminimum wage proposal will become a badge of inferior social and economic status for its recipients. Wage rates must be based on jobs, not on age; not on race; not on sex; not on national origin. The same justification which is being advanced to pay subminimum wages to youth to cure their high unemployment rate will next be advanced to justify a subminimum wage for women and for adult black workers, all of whom suffer a greater unemployment rate than other members of society.

This proposal is unjust and flies in the face of the social progress of the last few decades. Moreover, it is bad economics. The Laborers' International Union urges you for all these reasons to reject any proposal to create a subminimum wage for young workers.

Thank you,



APR 4 1981

American Hotel & Motel Association

1101 CONNECTICUT AVENUE, N.W. ★ SUITE 1006 ★ WASHINGTON, DC 20036
(202) 223-6872ALBERT L. McDERMOTT
Washington Representative

April 1, 1981

JAMES E. GAFFIGAN
AssistantLAWRENCE T. GRAHAM
Assistant

The Honorable Donald L. Nickles
Chairman
Senate Subcommittee on Labor
4230 Dirksen Senate Office Building
Washington, DC 20510

Dear Mr. Chairman:

The American Hotel & Motel Association is a federation of hotel and motel associations located in the fifty states, the District of Columbia, Puerto Rico and the Virgin Islands, having a membership in excess of 7,500 hotels and motels accounting for over one million rentable rooms. Inclusive in our membership are all of the major hotel and motel chains.

The hotel and motel industry is an employer of over one million employees. We are, of course, in favor of a healthy and profitable industry but, at the same time, we are in favor of providing as many job opportunities as we can. We are in favor of the youth differential because we believe that, on balance, it creates jobs and job opportunities, it reduces inflation, it allows our industry to enhance our services to our customers and it encourages younger employees to learn, train and work in our industry.

We support the youth differential - whatever specific form it takes - whether it be S. 348, S. 430 or S. 658. A youth differential would allow a hotel or motel, particularly a smaller hotel or motel, to hire a teenager for a job that would not exist but for the youth differential. Hotels and motels compete with each other on the basis of the services that they offer. Those extra few employees to insure an extra degree of cleanliness, an extra busboy or girl, or waiter and waitress, desk clerk, etc...can often be the difference between good service and excellent service.

Senator Hatch's bill, S. 348, contains various safeguards to allay the expressed fears of possible adult job displacement as a result of a youth differential. The safeguards are, as the

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committee knows:

1. a prohibition against substituting younger workers employed at less than the minimum wage for older workers at or above the minimum wage; and
2. a prohibition against terminating the employment of youth employees and employing other youth employees in order to gain continual advantage of the youth opportunity wage.

There is no clear evidence that there would be significant adult job displacement. For example, the initial working paper on the youth differential subject by economists at the Minimum Wage Study Commission states that gauging the extent, if any, of adult job displacement is a very difficult and a very uncertain process. One study for the Commission cited evidence that suggested that a youth differential would be likely to lead to a relatively modest teenage employment gain with no adult job loss. The number of teenagers employed at an average hotel is a relatively minor figure, further indicating that massive adult job displacement is unlikely in our industry. In addition, it would not be, to say the least, good for employee relations for a hotel or motel to fire an adult employee to be replaced by an entry-level unskilled teenager.

There is evidence that suggests that every time the minimum wage goes up and the extent of its coverage increases teenage unemployment rises. As a result of the recent indexing and substantial increases in the minimum wage, (over 45% in the last 4 years), the high rate of teenage unemployment is, at least, partly understandable and the need for a youth differential more acute. We see the overall effect of a youth differential not as a way of substituting one group of workers for another but as an incentive to our industry to create more jobs where, because of the minimum wage, a job opportunity did not previously exist.

Many experts agree that the problem underlying youth unemployment is not the maintenance of a job but the difficulty of entering the job market. As Senator Hayakawa said in 1977, during the Senate debate on the youth differential:

"What we are doing in our society...is to destroy the bottom rung of the ladder. It is all right to have a ladder going up to success, but if the bottom rung is 10 feet off the ground, (the worker is) never going to reach the bottom rung of the ladder..."

The lodging industry is a labor intensive industry. As the industry grows, so does our work force. A temporary sub-minimum wage would act as an incentive for us to hire youths

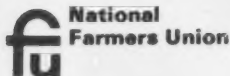
for entry level positions, to train them and sharpen their skills.

The subminimum wage is not a scheme for employer avoidance of the requirements of the FLSA. Rather, it is a simple, noncomplicated incentive for employers to hire the young, give them a training and learning period and then employ them at the full, or higher minimum wage. It is not the perfect solution to teenage unemployment problems but it is, at least, a way of attempting to solve the problem without starting a new government program.

Very truly yours,

Albert L. McDermott

ALM/cck



March 27, 1981

MAR 31 1981

Honorable Don Nickles
Chairman
Labor Subcommittee
Senate Labor and Human Resources Committee
United States Senate
Washington, D.C. 20510

MAR 30 1981

Dear Mr. Chairman:

We want to state for the record our opposition to enactment of the Youth Sub-minimum Wage Bill (S. 348) on which your Committee held hearings March 24 and 25.

The fact that President Reagan has not requested such legislation, that there has been no companion legislation introduced in the House and the business community has not pushed for a break in the minimum wage standard, seems to point to the little support for lowering the purchasing power of this group at the bottom of the wage scale.

We recognize that over 75 percent of new job opportunities are developed by small business enterprises but we believe businessmen as well as farmers would find far greater benefit from controls on interest rates and energy costs than a reduction in minimum wage rates, which would impact for a very limited time on teenage workers who make up only a third of these workers at the bottom of the wage scale.

Thank you for your attention in this matter.

Sincerely,

Reuben L. Johnson
Director of
Legislative Services

RLJ:gps

cc: Members of Subcommittee

UNION HOUSE, 1875 Eye Street, NW, Suite 450

HOTEL AND RESTAURANT EMPLOYEES AND BARTENDERS INTERNATIONAL UNION

1875 Eye Street, NW, Suite 450, Washington, D.C. 20006

Telephone: (202) 785-4220

Second Office, Washington, D.C. 20006, 1875 Eye St.

UNION HOUSE

UNION BAR

UNION HOTEL

March 27, 1981

Mr. Robert Hunter
Chief Counsel
Senate Labor Human Resources Committee
4230 Dirksen Senate Office Building
Washington, D.C. 20510

ROBERT E. JULIANO
Legislative Representative
1875 Eye Street, NW, Suite 450
Washington, D.C. 20006
Telephone: (202) 785-4220

Dear Bob:

As per our conversation we would deeply appreciate your making this testimony a part of the official record of the hearings that you just held on the Youth Subminimum Wage question.

Thank you very much for this opportunity.

I enjoyed the lunch very much, and I look forward to seeing you soon.

Best regards.

Cordially,

REJ
Robert E. Juliano

REJ/cz

Enclosure

Testimony of

ROBERT E. JULIANO

on behalf of

HOTEL AND RESTAURANT EMPLOYEES AND
BARTENDERS INTERNATIONAL UNION

on

S.348, S.430, and S.658

before

THE SUBCOMMITTEE ON LABOR

UNITED STATES SENATE COMMITTEE

on

LABOR AND HUMAN RESOURCES

Washington, D.C.

March 25, 1981

Mr. Chairman and Members of the Committee:

My name is Robert Juliano and I represent the Hotel and Restaurant Employees' and Bartenders' International Union and its hundreds of thousands of members in the Food Service and Lodging Industry. We are opposed to any legislation which would amend the Fair Labor Standards Act to authorize covered employers to pay young persons less than the statutory minimum wage.

The enactment of the Fair Labor Standards Act in 1938 represented a milestone in our history designed to assure that working Americans would be guaranteed an income on which one could maintain a minimum living standard and not find it necessary either to rely upon government assistance or to go without basic necessities. This most fundamental of our labor laws was enacted in the midst of the worst economic crisis this nation has ever experienced and yet, despite the great strides which have been made since that time in correcting those most difficult of conditions, its protections are as vitally important today as then. A minimum wage worker in 1981 will earn \$6,968 on a 52 week per year basis even though the official poverty level for a family of 4 is now estimated to be \$8,410 annually and the Bureau of Labor Statistics lower living standard for a 4-person family is \$12,585 per year. This set of facts alone underscores the minimal adequacy of the minimum wage and is testimony enough for the critical need to maintain this most basic of wage protections.

The subject of a youth subminimum wage is not new to this Committee. During the course of the last 10 years there have been various proposals of this kind put forth to this forum. In that same time period all of those proposals have been rejected -- both by the Committee and the Congress as a whole. The fact of the matter is that a subminimum wage for young persons makes neither good economic sense nor is it good public policy.

There is no question that general unemployment levels and youth unemployment in particular are serious problems in the United States. Despite numerous efforts by Presidents of both major political parties our success in combatting unemployment has been only temporary. And youth unemployment, especially among the economically disadvantaged and minorities, has continued to nag at us. A youth subminimum wage is, however, not the answer to this problem.

In recommending a subminimum wage rate for any category of workers -- the young, or blacks, or Vietnam veterans, or Hispanics, or women -- it is argued that employers will find it financially advantageous to create new jobs because they are "less expensive". Or it is suggested that we will in some way benefit if we substitute these younger workers for others who are being paid the legal minimum wage.

Neither of these propositions can stand up to careful scrutiny.

All the economic data show that it is the general economy which is the principal cause of youth unemployment. Economic recessions reduce job opportunities for all workers, but hurt younger workers the most. The most comprehensive study ever conducted on this subject was prepared by the Department of Labor in 1970. That report failed to establish any relationship between youth unemployment and the minimum wage. In its major findings the Department concluded:

In general, the most important factor explaining changes in teenage employment and unemployment has been general business conditions as measured by adult unemployment rate.

Not one of the local offices of the Employment Service cited the recent hike in the minimum wage or the extension of coverage under the Federal Fair Labor Standards Act as responsible for the change between June 1966 and June 1969 in the total number of non-farm job openings available to teenagers, or which specified a minimum age of 16-19 years of age or 20 years old or over.

In nearly all of the states covered by the study differential minimum wage rates applicable to youth, including exemptions, appear to have little impact on the employment of youth in 1969.

And, even though there have been a number of other studies since that time, none of them has been able to seriously dispute these compelling findings of the Department.

Will a youth subminimum wage result in the creation of new jobs for the supposed beneficiaries? The evidence is that this will not be the result. The 1976 study by Edward Gramlich of the University of Michigan has often been cited as support for the youth subminimum concept. He stated that:

Whatever the case, a 'youth differential' seems a desirable goal -- in effect evening out teenage and adult wages less and unemployment rates more. And it seems eminently reasonable to introduce this differential gradually, monitoring the internal substitution and stopping when and if adult disemployment becomes too great.

Gramlich therefore fully concedes that there will be a serious and noticeable adult disemployment effect if a youth subminimum is introduced. In his testimony before the House Labor Standards Subcommittee in 1977 -- one year after the publication of his study -- he said:

I think you will find that, in response to a change in the minimum, that it is very hard to find very large effects on total employment, one way or the other.

I would not want to go on record as saying who ought to get the jobs. The whole question of family responsibilities is a very complex one. I think, probably, it will turn out that adult women have more family responsibilities ... than teenagers do."

Thus, the economist most often relied upon by advocates of a youth subminimum clearly shoots down any argument that a lower wage will create more jobs. It will only result in a substitution effect.

Nor does it take any more than simple common sense to recognize the flaws in the employment creation argument. Few if any employers will open new businesses in the hard hit areas of our big cities because of a labor savings of 15-25% of the minimum wage. America's large corporations are today either laying off

workers due to general economic conditions made complicated by skyrocketing energy costs and overall inflation rates or they are moving to the western and southern regions of the nation because of more agreeable climates, tax incentives, and other enticements offered by states which desire to improve their economic base. And, conversely, even in the face of less than satisfactory economic conditions the great proportion of employment growth in the past four years has been in small businesses who have hardly been deterred from creating jobs in the absence of a youth subminimum. Nor do these small businessmen seek to or will they be likely to locate in areas where their source of labor is untrained and unskilled merely to get the infinitesimal advantage of a few low paid young workers.

Will we benefit as a nation from the substitution of young workers from older workers? Again, the answer is a resounding "no".

The impact of a youth subminimum will, according to even the most conservative economists, result in a clear substitution effect of younger for older workers. Almost 43% of all married-couple families with wage earners are supported by only a single worker. Among those married-couple families which earn less than \$200 per week, 22.5% are from white families, 45.4% are from Black families and 36.1% are from Hispanic families. This means that young subminimum wage earners would be competing in the job market with more than 2.9 million one-earner Hispanic

families. If employers were to choose younger workers over older workers because of their ability to pay a lower wage, the impact on these married couples and their children could be devastating. And this devastation would not only take the form of immense costs to the government in terms of welfare, food stamps, unemployment insurance and other so-called "safety net" programs. It would also pit young against old, black against white, and generally encourage immense social tensions which our society cannot afford and must not tolerate. These same effects would also occur among other types of family situations, especially the more than 2.7 million families supported by single parents earning less than \$200 per week.

The substitution effect becomes even more unpalatable in view of the Reagan Administration proposals before the Congress to cut the domestic budget. Although we are adamantly opposed to this dismantling of so much of the nation's domestic infrastructure, just imagine what would happen if on top of these actions young persons were hired to replace their older fellow workers. A worker who became unemployed would be required under the Reagan plan to take a minimum wage job after his or her first 13 weeks of unemployment. Yet, these jobs could well be filled by young subminimum wage earners and the unemployment insurance costs to the government would continue. Welfare mothers (or fathers) would be unable to find minimum wage jobs under the Reagan "workfare" proposal and here, too, the purported budget savings

would evaporate. Public service employees whose jobs are to be abolished because of the proposed termination of Titles VI and II-D of CETA would not be able to be placed in whatever private sector employment exists because of competition from younger subminimum workers. These adult workers would have no place to turn and who can estimate this potential cost to our nation.

Mr. Chairman, there are many other economic analyses which give further support to our view that a youth subminimum would yield no new jobs in the economy as a whole but would instead have a severe substitution effect as well as diminish worker purchasing power. Most dramatic is the Alan Fisher study on "Adult Disemployment Effects of a Youth Minimum Wage Differential." He estimates that a 15 to 20 percent youth differential could well affect from 500,000 to 800,000 adult jobs representing from 0.7 to 1 percentage point in the adult unemployment rate. He then goes on to say:

Any consideration of whether the long run exchange would be net improvement for society must consider the social costs of adult unemployment compared to teenage unemployment, and therefore, reject the switch.

Three final important considerations must be noted. First, within a few years [i.e. by the beginning of 1980] the teenage population will decrease to a level as much as 20 percent below current levels. Over the same period, the "baby boom" period cohorts will be aging and moving through the age groups. One effect of these demographic changes will be to reduce the excess supplies in low-wage markets in which teenagers compete. Another effect, however, is that excess supplies and crowding in career labor markets are already increasing

the difficulty of young adults breaking into careers; some of these young adults are, therefore, restricted to low-wage labor markets longer than would have been the case with a more favorable demographic mix. The net effect of unemployment of young adults relative to teenagers and a situation where it will be necessary to rethink through the wisdom of having a teenage minimum wage differential.

And these conclusions are supported by the more recent work of Dr. Sar Levitan of George Washington University as well as Dr. Paul Osterman of M.I.T.

Let us, however, go beyond the economic arguments and look at some practical experience. As you know, Section 14(b) of the Fair Labor Standards Act permits certain employers to hire full-time students for 20 hours per week at 85 percent of the statutory minimum wage. The Labor Department is authorized under the law to issue certificates to retail and service establishments, agricultural employers, and institutions of higher education to hire these young persons at this special subminimum rate. Yet, despite the fact that the 1977 FLSA Amendments made it less administratively burdensome for employers to obtain these certificates, these provisions simply have not resulted in any benefit to the vast majority of students or the employers they were designed to help. According to the latest data available from the Department of Labor, in 1979 only 29,741 retail and service establishments had obtained these certificates. And, of the 230,000 subminimum job slots which were authorized by these certificates, only 115,000 students were actually employed at the

lower wage rate. The significance of this data becomes apparent when compared with the Department's estimate that more than 679,000 retail and service establishments were eligible to use this provision of the law, that 5,250,000 students could have been hired by these employers at the special 86½ rate, and that there are 12 million persons between the ages of 16 and 21 whose major activity is going to school. Thus, it is apparent that a youth subminimum wage is not a particularly useful device for encouraging even part-time employment among young people nor do employers go out of their way to create part-time job opportunities for youngsters even at a lower, less expensive wage rate.

Mr. Chairman, the bills currently pending before this Committee (S.348, S.430, and S.658) range from a complete repeal of the statutory minimum wage for youngsters under the age of 18 to the establishment of an 86½ subminimum for persons through the age of 19 for a period not to exceed 6 months. S.348 and S.430 contain so-called safeguards which would prohibit a "pattern and practice" of substituting young workers for older employees or terminating younger workers after the 6-month subminimum wage period in order to take advantage of the opportunity to hire other young persons at the lower rate. In addition, S.430 has a duration of three years after which the Congress is to determine whether it has been effective and to consider whether the provisions should be extended.

I have indicated in my earlier comments why we believe that a subminimum wage at any level lower than the statutory rate is inappropriate and unfair. The fact that each of the three bills establishes a different rate (i.e. either no prescribed minimum, a 75% subminimum, or an 85% subminimum) is in itself telling evidence that there is no clear economic or other basis for determining at what lower wage level new opportunities will be created. Nor do the authors of each bill offer any economic justification.

The safeguards which the proponents of two of the bills claim will prevent abuse are likewise unworkable. We know that the enforcement capabilities of the Labor Department are already severely limited and will become even more burdened by personnel cuts proposed in the Reagan budget. Thus, how is that agency expected to take on the additional burden of determining "pattern and practice" violations involving the substitution of younger for older workers which perforce require extensive labor market analysis and which computations must reach down to the establishment level? So too, how will the Department be able to prove that a younger subminimum wage worker was terminated from his or her job because of the employer's desire to continue to take advantage of a reduced cost labor force? To put this added burden upon the Department will require hundreds if not thousands of additional compliance officers or, as is more likely, a severe dilution of enforcement resources such that compliance with both

existing as well as these new provisions will suffer badly. And to those who respond to this concern with the retort that individuals have a private right of action under the Act I must respond with a few simple questions: How is a teenager whose present qualifications limit him to a subminimum wage job going to be able to persuade an attorney to undertake the time-consuming and complex litigation necessary to correct this injustice? What is the remedy for those adults who have been displaced because of a youth subminimum? Will a youngster who has been fired because he is no longer economically attractive to the employer be able to regain his job? How will employers know whether they are engaging in the unlawful practice of substituting younger for older workers thereby exposing themselves to liability under the Act? It is clear that there are no acceptable answers to these questions and that these safeguards are both theoretically and practically ineffective.

Mr. Chairman, I think it is critical that we not lose sight of what I hope is our shared goal -- reducing unemployment among all population groups, assuring that we have a well trained and productive labor force, and raising the economic level of all Americans. Surely the concept of the youth subminimum wage will not help us in achieving any of those objectives.

As I have indicated, every economic analysis which has been made demonstrates that it is the condition of the economy as a whole which contributes to more job creation and lower

unemployment levels. The special student certificate program authorized by section 14(b) of the Act has been underutilized and has not contributed to employment growth. Nor has our experience with the generous incentives provided by the Targetted Jobs Tax Credit been particularly encouraging at this point. Although I think that we may need more time to be certain whether that program will work, we know that in the first 18 months of its operation only 5% of all eligible disadvantaged youth, Vietnam veterans, welfare recipients and others have been certified under the program. Through September of 1980 only 306,000 persons have been certified and of these only 35% were disadvantaged youth whereas 46% were cooperative education students who would have already been employed as part of their prescribed work-study program. And in a review of the program in the bulk of the southern states the Department of Labor found that 60 to 90% of all those certified for the tax credit had been certified retroactively, that is, they would have been hired even in the absence of the credit. Thus, even the \$900 to \$2500 which an employer can credit toward taxes because of this program (and which represents an annual savings far more than would be realized under even the most generous youth subminimum proposal) has so far not served to create any substantial increase in youth employment.

If we are to achieve a well trained labor force, particularly among youth, we should do so with positive programs. Paying a lower wage to young people will not cause employers to

invest the difference in training those young employees. We know that the decade of the 1980's is going to bring substantial labor and skill shortages. Yet, at the same time that many public figures advocate a youth subminimum wage those same persons -- including the President -- have recommended drastically reducing if not totally eliminating federal employment and training programs. With the termination of the highly successful programs mounted under the Youth Employment and Demonstration Projects Act of 1977, the Department of Labor's own estimates show that almost 500,000 youth training opportunities will be completely wiped out. And this is not to mention youth training opportunities which will be reduced by lower funding of other Titles of CETA. Nor does this take into account the proposal for drastic reductions in the Federal education budget which is targetted to disadvantaged young people in our schools and colleges. If we were to enact a youth subminimum wage in addition to what subminimal education and training opportunities are proposed all we would accomplish is training our young persons for a life of hopelessness, indignity, and despair.

A youth subminimum wage will do nothing to overcome the tragedy of unskilled teenagers ill-equipped to compete in the labor markets of the 1980's. And, such a proposal will set a dangerous precedent. Blacks have a much higher unemployment rate than whites. Should we have a separate subminimum for blacks? Women have a higher unemployment rate than men. Should we have a

separate subminimum for women? Do the higher unemployment rates of Hispanics and Vietnam veterans mean that they too should qualify for a subminimum wage? Of course not. No one has ever suggested that the fundamental principle of equal pay for equal work be eroded to accomodate the unemployment problems of these groups in our society. Indeed, even the "enterprise zone" legislation proposed by Congressman Kemp carefully preserves all of our basic labor standards legislation including the minimum wage.

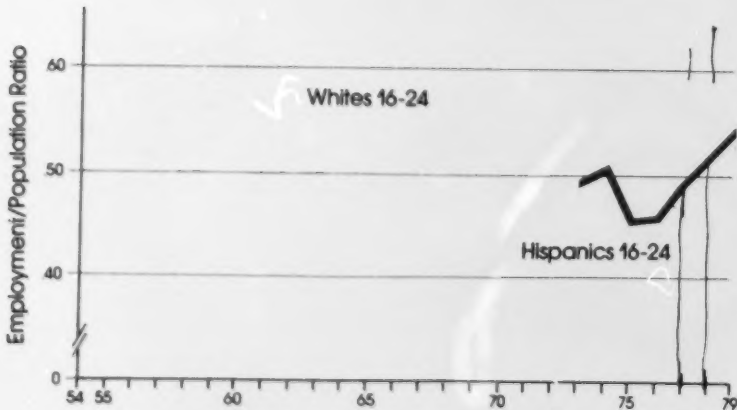
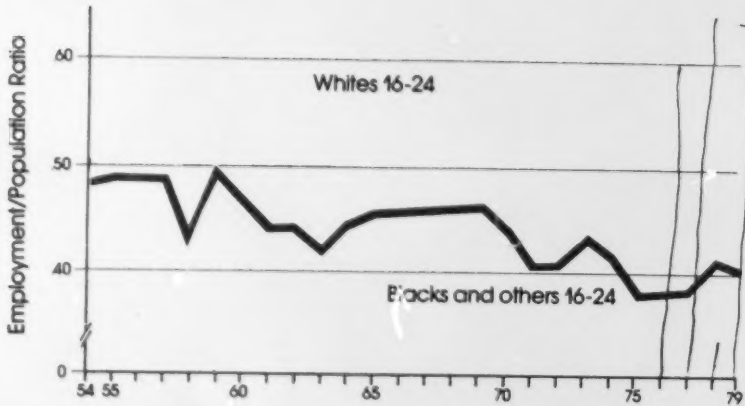
In his Message to Congress on May 24, 1937, President Franklin Roosevelt best summed up the need for a fair and uniform minimum wage. He stated that:

Our nation so richly endowed with natural resources and with a capable and industrious population whould be able to devise ways and means of insuring to all our able-bodied working men and women a fair day's pay for a fair day's work. A self-supporting and self-respecting democracy can plead no justification for the existence of child labor, no economic reason for chiseling workers' wages or stretching workers' hours.

A little more than a year after President Roosevelt offered his proposals to Congress, the Fair Labor Standards Act was signed into law. And though we were still in the midat of economic depression, there were no subminimum wage rates for any selected groups of the population. A subminimum wage for youth is no more justified today than it would have been more than four decades ago.

*Between 11 and 18
WENT FROM 235 - 245*

Who's Losing Ground? Employment/Population Ratios Over 26 Years 1954-1979



Source: Department of Labor Data

235.16 245

[From the Paterson (New Jersey) News]

NORTH JERSEY'S SWEATSHOPS

Where a worker earns \$100 for 90 hours of work

By Mick Andersen

Special to The News

This is the first of a two-part series examining sweatshops in northern New Jersey.

PASSAIC — Inside the two-room storefront on Monroe Street, four women sit glumly at sewing machines, one behind the other.

The third one in the row, a hefty middle-aged woman in a T-shirt, is stitching slowly, deliberately, stopping from time to time only to care for the retarded boy in his early teens sitting quietly beside her.

In the next room, a girl in her early teens and a couple in their late 30s hunch over a long table, sorting and folding a large pile of clothes that cascades over the sides onto the scrap-littered floor. Everyone is working, and working hard.

These workers, like thousands of other state residents, are employed in one of the many modern-day garment sweatshops found in North Jersey.

There are an estimated 6,000 workers — mostly Hispanic, often illegal residents — working in

perhaps hundreds of such shops in Passaic, Union City, Fairview, West New York, Newark, Jersey City and Hackensack.

Unlike the sweatshops of the last century, most of the modern variety are smaller, with three or four workers at the shop and another 15 to 30 employees who work in their homes, according to Carlos Chaparro, a North Jersey representative of the International Ladies' Garment Workers Union.

In these "home-work" and storefront garment shops, non-union workers — paid as little as \$180 for a 90-hour week — sew together ready-to-wear items for manufacturers across the Hudson River in Manhattan.

"They usually are given large quantities of work by the manufacturer," says Chaparro. "The work is already cut and sewn; one or two weeks later the contractor picks the work up."

"All that's left to do are the (manufacturer's) labels and the (plastic protective) bags."

See SWEATSHOPS, Page 8

SWEATSHOPS

Continued from Page 1

In the course of an ongoing investigation of several hundred of these North Jersey workplaces by the state labor department, 144 have been cited for paying below-minimum wages and for having substandard work conditions.

Of these, only about 20 of the worst violators were taken to court for offenses ranging from failure to pay in accordance with minimum wage and overtime standards, to failure to secure proper permits, to employing minors under the age of 18.

"If all of them were prosecuted, the deputy attorney general would not be able to handle them all," said Marian Gartman, assistant director of the Division of Work Place Standards of the state Department of Labor and Industry.

And that's only part of the story, say garment contractors, union officers, state officials and the workers themselves.

On-site inspections of a number of shops reveal shop conditions ranging from fair to abysmal. Rarely are the floors clear of litter — a fire hazard; less frequently, are there the exit signs required by law, and if they're there, they don't work. The time clocks on the wall often don't fulfill their appointed function.

At some of the shops, there is only one accessible entrance. In the midst of the highly-flammable products, tragedy waits to happen.

But because the workforce is paid in cash and composed largely of family members, illegal aliens, children and people taking unfair advantage of welfare and tax laws, few are willing to talk.

"Around here, everybody's afraid to talk," said Chaparro.

When the workers are willing to talk in the shops, they say they work for "the minimum wage," though few can tell the questioner how much they make an hour, or what the minimum is.

Those willing to talk frankly — usually in the privacy of their own homes — say they work 14 to 16 hours a day, six days a week, for a flat piece-work rate.

Money is sometimes taken out for damage to articles. Some make only \$90 to \$100 for 90 hours of work. Some must wait nearly a month after the work has been completed for their money — a fact also confirmed by a sweatshop owner.

"The wages involved are a big difference," notes Chaparro. A union member earns "between \$4.50 and \$5, depending on the quality of the garment."

In addition, the union worker receives Blue Cross-Blue Shield, major medical, three weeks paid vacation, a pharmaceutical plan and 16 guaranteed holidays.

Whatever the conditions, the union worker soon finds that complainers mean no work. It's a buyer's market.

And for the illegal alien, there is little question about complaining. He's heard the stories about other workers who stood up for their rights only to be "found out" by the immigration authorities.

It is important to understand the pressures faced by non-union workers, says Allen Richardson, a reporter for the Fairchild News Service, a garment industry publications group.

"There aren't many Puerto Ricans in the garment centers simply because they aren't as easy to exploit as the Dominicans or others who may be here illegally," Richardson said.

"That's one of the ways they keep them in miserable conditions — by threatening them with being turned in," adds David Peters, general attorney for the Newark branch of the U.S. Justice Department's Immigration and Naturalization Service.

In the New York metropolitan area there are more than 1 million undocumented workers, according to Peters. There is no legal recourse available to the government to go after employers who knowingly employ illegal aliens, he says, a situation the INS has been working to change for a number of years.

"There are members of Congress who — for reasons I won't speculate on — think that this would be just terrible," Peters says.

The threat of being turned in

sometimes materializes in action, says Louis Galoppo, assistant district director for investigation in the Newark INS office.

Galoppo said that of the 1,500 to 3,000 complaints that come into his office each month, "a very small number" are from employers turning in their workers.

"We try not to get trapped in this, but frankly, if they're illegal, we don't give a damn who turns them in," he says. "If they're illegal, we're going to get them."

If the work climate is bad for the workers, the business environment may be just as bad for the contractors.

Owners and workers agree that in an industry with many players, there are few rules and even fewer winners.

Two storefronts down from the busy, Monroe Street sweatshop, a middle-aged Cuban stands disconsolately over his own empty shop, with its idle sewing machines and broken time clock, and remembers his dreams of going into business for himself, a way of getting out of the auto repair work he did for so long.

"I haven't had work in more than a month," he says, looking at the floor as radio station WADO blares out familiar salsa — the lively music of the Caribbean — in the background. "I didn't think it would be like this."

Low earnings and the

manufacturers' lack of responsibility to their workers make for cutthroat competition between contractors.

"It's a penny industry," said Chaparro. "If the next guy is getting a penny more for a blouse, say, they (his competitors) will do anything to break him."

And because of the competition, the owners are forced to bid low for the manufacturer's work, sometimes far too low. They also are under pressure to come up with production schedules they later learn are unrealistic.

"A lot of them don't realize the work involved; that's when a lot of trouble starts with their workers," says Richardson. "The contractor's inexperience benefits the manufacturers, who've been around a lot longer."

And because they are low capital enterprises, when the money isn't there, the workers don't get paid. The same is true when the manufacturer goes out of business and the contractor is left holding the finished product.

Yet, for all the trouble, there is no lack of people trying their hand at running a sweatshop.

"A lot of these shops crop up, and a lot of these people shouldn't be in business," Gartzman says. "They're operating on a shoestring and they don't realize what they've gotten into."

Adds Richardson, "It takes a couple of thousand dollars to set up

one of these places and then they can say they've gone from hard labor to management."

But human considerations aside, the shops are good at what they do, turning out tons of cheaply-made clothing that undercuts the market for businesses under union contract.

Most of the work comes from high volume, popular-price concerns that do not mind the large looping stitch rejected by union manufacturers.

According to Richardson, there are many manufacturers who cut millions in costs by using non-union labor in the New York metropolitan area.

In contracting work out to non-union shops, manufacturers can save as much as half the industry's prevailing union rate, say industry sources.

"The only people who make money out of this deal are the manufacturers," notes Chaparro.

Chaparro adds that the state is hurt by the operation of the sweatshops. Because the work is contracted out, he says, the manufacturers don't pay state and local taxes, nor Social Security, nor workmen's compensation.

"The state can fine the contractor (for violations of wage and safety laws)," adds Richardson, "but they can't hold the manufacturer on anything."

Tomorrow: An interview with a sweatshop owner.

Illegal aliens find safety working in their homes

By Mick Andersen
Special to The News

Like most of her friends in the working-class neighborhood overlooking the Hudson River, Elsa Rodriguez spends most of her day — and a good part of the night — in front of a sewing machine.

Fourteen hours a day, every day but Sunday.

If she was making the minimum wage for her efforts, she would be taking home nearly \$350 a week.

Instead she gets about \$90 a week.

Elsa Rodriguez — not her real name — is part of the network of "home work" and sweatshop garment industries scattered throughout North Jersey.

Rodriguez, an illegal resident from Panama who has been in the United States for 10 years, says she doesn't mind.

"I have the opportunity to work," she says as she sits at her kitchen table.

Smoothing an imaginary cowlick in her short, soft-brown hair, she explains, "In my country, if you don't have a profession, you can't earn any money."

Without the home work, she notes, her family couldn't get by on what her husband of 10 years earns washing windows in Manhattan. As she looks around her clean, comfortable, four-room apartment, her eyes reflect her pride in ownership.

Rodriguez, who is almost 30, adds that because she works at home she is able to take care of her 10-year-old son and three-year-old daughter. Because her son is slightly mentally retarded, he did not attend school until he was 8 years old.

The issue of illegal residency, however, is the main reason she chooses to work at home.

Asked if she worries about being "found out" while working at another job, she says:

"Yes, I'm afraid because they'll send me back. Because of that, I can't go to the factory."

The pay wouldn't be so bad, she says, if she and others like her weren't faced with the kind of blackmail she says is rampant in the industry.

"Seven months ago I was threatened," Rodriguez recalls. "My boss, he didn't pay me for three weeks, and when I asked for my money, he threatened me with immigration. He owed me \$180 or \$300."

There was nothing she could do, she says.

Wouldn't it be better to return home to more familiar surroundings, she is asked.

A look of defiance clouds her eyes. "I won't go back unless immigration sends me," she says.

A majority of women in the Hudson County neighborhood work at home because they are illegal residents, Rodriguez says.

A question called out from the small sewing room causes Rodriguez to get up from the kitchen table.

Rodriguez is teaching a 15-year-old girl how to sew. Rodriguez, who completed the ninth grade, has been sewing for five years.

Soon the girl, too, will be earning the same wage while sharing many of the same fears.

Feb 25
1981

Resurgence of Sweatshops Reported in New York

By SANDRA SALMANS

Concealed behind painted-over storefronts and crowded into shuttered lofts and cellars, sweatshops are reappearing in garment manufacturing in the New York area, government investigators and union officials say.

According to these investigators, the sweatshops are spreading from Chinatown, where they took root long ago, to Washington Heights, Inwood and the South Bronx, and extending into Queens, Brooklyn and even Staten Island. Sweatshops have also been found in northern New Jersey and parts of Westchester.

"It's exploding," said Herbert Richman, special assistant to Mayor Koch.

While sweatshop conditions vary, there is a grim sameness to the basic appearance: rows of women bent over sewing machines, separated by narrow aisles often made impassable by dress racks and piles of piece goods. Fire exits and windows, too, are often blocked or even padlocked, reducing emergency escapes to a rickety freight elevator and utility

stairs. For 30 employees, there may be only a handful of time cards — with stamped times that bear little resemblance to the actual hours worked.

Even the most reputable garment factories tend to be crowded and cluttered by modern standards. Sweatshops, however, may fail to comply with minimum wage and hour laws, child labor regulations and fire and safety codes laws.

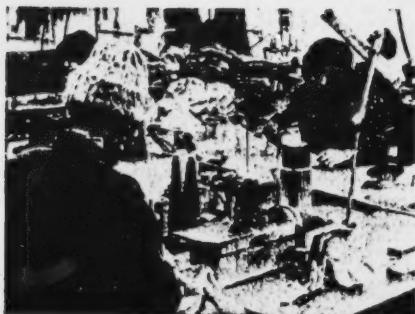
60,000 Workers Estimated

Precisely how many sweatshops and sweatshop workers there are in New York is impossible to determine. In a report to be released today, State Senator Franz Leichter, who represents an upper Manhattan district where many sweatshops have recently sprung up, estimates that some 60,000 people are employed in as many as 3,000 sweatshops in the apparel trade. Ten years ago, according to Senator Leichter, there were only 300 sweatshops in the city, half of them in Chinatown. The industry's official estimate of total employment in New York is less than 300,000, but no one dismisses the sweatshop figure as improbably high.

The resurgence comes nearly 70 years after the fire at the Triangle Shirtwaist factory, where 146 garment workers died. The notorious episode is invariably invoked by government officials in discussing the situation today.

Increasingly, the workers are illegal aliens — from Hong Kong, South Korea, the Dominican Republic, Haiti or Latin America. Lacking work permits and sufficient knowledge of English, they are

Continued on Page D11, Column 1



Apparel manufacturers on East Broadway cited for building violations

Sweatshop Returns As Fact of City Life

Continued From Page A1

easy targets for exploitation. The flow of immigrants from these areas is generally cited as a main factor in the revival of sweatshops, which were believed to have declined sharply in the city following reformist legislation and union activity in the 1920's and 1930's.

As Herman Starobin, research director of the International Ladies Garment Workers Union, noted, "There's a growing, garment-producing operation in the midst of a completely different culture."

Some of the Reasons

Government, union and industry officials cite several reasons for the growth of the sweatshops:

• Budgetary cutbacks have compelled government departments to reduce the number of inspectors and deploy them in top-priority sectors, which do not include garment manufacturing.

• The large influx of immigrants, both legal and illegal, has created a sizable and trained pool of workers who are easily exploited.

• Inefficient or ineffectual officials in government and the I.L.G.W.U., the main union responsible for organizing garment factories in the New York area, are cited by some garment manufacturers as contributing to the problem. Many Chinatown factories are unlicensed but are often found in violation of city building and fire codes.

• The contracting system, in which apparel companies parcel out the production of garments to small, highly competitive contractors and subcontractors, is said to encourage the companies to put a premium on speed while overlooking any sense of responsibility.

In theory, a number of government departments are responsible for poling the apparel trade and imposing criminal and civil penalties. But, apart from some much-publicized periodic raids — the most recent of which occurred some 18 months ago in Chinatown — inspection and policing have been sharply curtailed as a result of budgetary cutbacks, critics say.

Number of Inspectors Cut

For the five boroughs, the buildings department has only 49 inspectors to examine construction, issue violations and pursue recalcitrant owners. The Fire Department has only 150 inspectors, down from 250 several years ago. Instead of annual inspections, "we might hit between 10 and 15 percent of the buildings each year," said Paul Kitch, the department's inspector-general. Payoffs to inspectors by contractors, Mr. Kitch acknowledged, were an additional problem.

While the city's authority covers only building and fire codes, the United States Labor Department is supposed to inspect for machine safety, minimum-wage and overtime payments and the employment of minors. But

since the Chinatown raid in 1979, the department has turned its attention to higher-priority industries.

"We don't normally make inspections unless we get complaints," said Nicholas DiMarchi, deputy regional administrator in New York for the Labor Department's Occupational Safety and Health Administration. He added, "Very few complaints come from sweatshops."

While garment manufacturing is admittedly not a high-risk trade, OSHA inspectors are supposed to insure that sewing machines have needle guards to protect seamstresses' hands. But in sweatshops, where workers tend to be paid by piecework and productivity is the foremost concern, the workers themselves resist using guards, saying they slow them down, Mr. DiMarchi said.

"If I tried to enforce it, I'd be doing someone out of a livelihood," he added. "Do you get punctures — which can become infected — or do you feed your children? It's that basic."

Paying for piecework, the norm in garment sweatshops, is not likely to end as workers receive at least the minimum wage of \$2.15 an hour. "But in most cases, people don't possibly make the number of pieces to come anywhere near the minimum wage," said Francis Marcurio, regional director of the Labor Department's Enforcing Standards Administration.

\$1.50-an-Hour Wages

Mr. Mercurio's department has found sweatshops where workers were averaging \$1.30 an hour for a 50-hour week. To show a worker what his record is, inspectors say, they usually punch time cards in and out daily as workers rumble at their machines, not collecting overtime for extra hours.

To raise their income, inspectors say, garment workers increasingly take work home. The practice, largely banned by state and Federal law, removes workers from public scrutiny and makes law enforcement difficult.

It is widely agreed that sweatshop workers are easy to exploit because many are recent immigrants, fearful of license from the designer. One company uses a contractor in Chinatown. "Why not blame the Mayor, or the union for not enforcing the contract?"

Union officials insist that they are working harder than ever to organize garment workers, including illegal aliens. Of the 116,000 I.L.G.W.U. members in the New York area, as many as 30 percent are estimated to be illegal immigrants.

Seventh Avenue manufacturers are the guilty ones, says Frederick Siems, I.L.G.W.U. executive vice president. "The name of the game is price," he said. "Sweatshop operators bid on garments, and the one who is most desperate gets the work. These manufacturers know what's happening."

In the view of Mr. Siems and others, contracting, the traditional method of garment manufacturing, is fundamental to the perpetuation of the sweatshop. Typically, apparel manufacturers send their cut or piece goods to contractors to be sewn. The contractors, in turn, may subcontract the work.

The system encourages fly-by-night operators who, in a seasonal industry, manufacture for a few months, pocket their profits and close. "It isn't difficult to find a loft where you can put 30 or 40 machines, and you're in business," Mr. Mercurio said. "It's a fast-back operation. It's just like a pusher—the police kick him off one corner, but in a week he reappears on another."

Union Cited as Part of Problem

Some manufacturers suggest that the I.L.G.W.U., as a result of ineffectual leadership, is partly to blame for the resurgence of sweatshops.

"Why blame someone who gives work to people?" said Myron Norris, owner of Olvency for Little Tansums, which makes children's apparel under license from the designer. The company uses a contractor in Chinatown. "Why not blame the Mayor, or the union for not enforcing the contract?"

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"We Can't Police This"

Contracting also removes the manufacturer from direct responsibility for the treatment of workers. "When we give a contractor an order, we can't police him," Mr. Norris of Little Tansums said. "We've got to let a representative visit his Chinatown contractor

daily to inspect the garment's quality, but not wages or working conditions. "If they're breaking the law," he said of his contractors, "the city should close them down."

Government representatives also charge that truckers help support sweatshops by charging excessively high rates for shipping the goods. And it is virtually impossible for contractors to switch to another trucking concern because of the influence of organized crime, according to Senator Leichter.

To clamp down on sweatshops, Senator Leichter this week is offering legislation that would compel manufacturers to register with the state. Under the measure, the state would be able to confiscate goods found in sweatshops—a practice that would adversely affect manufacturers who sew the goods. "The manufacturers may become our policemen," said James Quillen, Labor Commissioner of California, where a similar law is scheduled to go into effect this July.

Most New York manufacturers oppose the measure. "All the laws that we need are already on the books," said Kurt Barnard, executive director of the Federation of Apparel Manufacturers. "They should be enforced."

Other measures cited as means of stopping sweatshops include making it a crime knowingly to employ illegal aliens, and granting amnesty—and legalization of their status—to illegal immigrants already working here.

The outlook for any legislation is uncertain, however. A similar bill proposed by Senator Leichter failed to pass last year, and laws concerning immigrants require Federal action.

Some manufacturers and government representatives tend to be biased about the need for such laws. As one manufacturer noted, "Why should we object to employing people in sweatshops here when we're willing to import garments from sweatshops in Hong Kong and other countries?"

But Mr. DiArchangel rejects that. "Legal or not," he said of the workers, "they're here and they're working and we should be protecting them."

TESTIMONY BY THE HONORABLE TOBY ROTH
BEFORE THE SENATE LABOR AND HUMAN RESOURCES COMMITTEE
SUBCOMMITTEE ON LABOR
MARCH 25, 1981

Mr. Chairman, I am pleased to have been granted this opportunity to address your subcommittee with regard to legislation to establish a youth minimum wage differential.

Youth unemployment has risen in proportion to increases in the standard minimum wage.

The minimum wage has begun to exceed the amount of wages an employer can afford to pay. Usually, jobs performed by teen-agers require little skill and are of lesser importance to an employer. As the escalating minimum wage has increased overall labor costs, employers have mechanized or abolished many functions once performed by younger workers.

Mr. Chairman, I have the privilege of representing a Wisconsin district which depends significantly on the travel and tourism industry for a viable economy. Most of the tourism-related concerns in my district are small businesses which have historically been a predominant source of first job opportunities to the young. I see the enactment of a youth opportunity wage as a means of both providing employment to young people and allowing small business an affordable source of labor that will foster their growth.

A youth minimum wage will benefit all concerned. Reduced labor costs will allow small businesses to expand their output, and pass these cost savings onto the consumer in the form of lower prices. Young people will gain training and job experience, and the larger society will get some relief from the problems associated with high youth unemployment.

The Bureau of Labor Statistics estimates that overall unemployment for youth has averaged between 14.5 and 19.9 percent over the past four years. The failure of present job-creating programs to curtail rising youth unemployment is demonstrated in these statistics. The mayors of New York and Los Angeles have expressed their willingness to implement a youth minimum wage on an experimental basis. This is clear evidence of the gravity of the situation and the need for prompt action to establish a youth minimum wage.

Mr. Chairman, we are now contemplating cutbacks in our nation's social programs that will exert an even greater pressure upon our youth to secure employment. Student aid is being reduced. CETA training and employment services are being modified. I believe the youth minimum wage differential to be an effective means to compensate for these cutbacks by providing job opportunities based on demand rather than on taxpayer-supported federal programs.

This legislation will pave the way to a brighter future for our young people. Minority youth are the hardest hit by unemployment. Let's reduce the current 37 percent rate of unemployment among minority youth and give these youngsters a chance at the equal opportunity they need to enter into the mainstream.

I urge my colleagues on this subcommittee to act in the interests of our nation's young people. Beyond the statistics, the arguments in favor and in opposition to this legislation, is the pressing need of our youth for training, a sense of purpose, productivity and self-esteem. Let us act for the good of our youth, and in doing so make an investment in our nation's future.

-END-

STUDENT PROGRESSIVE COALITION

c/o Herbert Block, 201 East 21 St., New York, N.Y. 10010

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STATEMENT OF
 STUDENT PROGRESSIVE COALITION
 PREPARED FOR THE SUBCOMMITTEE ON LABOR OF THE
 SENATE LABOR AND HUMAN RESOURCES COMMITTEE
 ON S.348, S.430, AND S.658
 APRIL 1981

The STUDENT PROGRESSIVE COALITION is composed of students in several New York City high schools, both public and private. We are concerned with a variety of issues that we believe will affect youth, and one such issue is the proposed youth subminimum wage.

We oppose S.348, S.430 and S.658 for several reasons. These bills will not reduce youth unemployment and probably will increase adult unemployment. A new class of discrimination based on age will be set up. These bills are not necessary since students already can be paid 85% of the minimum wage. The real beneficiaries from this proposal would be business, which would increase its opportunities for profit.

The proposed youth subminimum wage is not necessary, for employers can currently hire full time students at 85% to 100% of the minimum wage for 20 hours a week of work, and 40 hours a week during vacations. All additional hours must be paid at the minimum wage. Approximately 450,000 youths benefited from this in FY 1980. While this increased youth employment in some areas, it cannot be used as a model for a wide-reaching subminimum wage, since the youths did not have to compete with adults for those jobs.

Between 1948 and 1979 the minimum wage changed eleven times,

and in seven of those times teen unemployment went down. The minimum wage, currently \$3.35 an hour, is barely enough for workers to survive on and this includes young people, who also have expenses since many are self-supporting. No one would be willing to exhaust themselves working for such paltry wages. In 1967 the minimum wage was \$1.40 per hour, but the current minimum wage is only worth \$1.29 in 1967 dollars. By the time a youth pays for carfare, lunch and other incidentals, he or she will have virtually no money remaining.

A pool of cheap labor, very easy to be exploited, will be created. The bills under discussion require that the youth workers be protected by the child labor laws, but someone 18 or 19 years old is not a child! We do not know if these youth workers will be given the same protection by employers as adult workers. Will they be allowed to join unions, despite the fact that they are being paid less?

For some jobs employers might very well hire a youth who could be paid less. Thus many heads of households might lose their jobs, and they are the ones who must support the family. After the 180 day period that an employer would be legally allowed to pay less than the minimum wage, the employer could fire that youth and hire a new one for six months. Both S.348 and S.430 claim to be able to prevent this. The bills state that "whenever the Secretary discovers" that an employer is engaged in a "pattern and practice of" substituting young workers for older workers and firing youths to hire new ones, the Secretary will prescribe a penalty for the employer. It is unlikely that a business oriented Secretary of Labor would be given the funding and manpower to investigate all the employers around the nation who employ youth at less than the minimum wage.

Furthermore, an employer might threaten to fire a young worker who exposed any illegal practices.

S.348 would allow employers to hire workers under age 20 at 75% of the minimum wage, or currently \$2.51 an hour. Many people ages 18 and 19 have families of their own or must work in order to help their parents support the family. They cannot afford to be paid "peanut" wages and they are no longer children. Students could also be paid 75% of the minimum wage, 10% less than currently allowed. S.430 would allow employers to pay 85% of the minimum wage, or \$2.85 an hour, but this can already be done under the provisions of previously enacted bills. S.658 is the only bill that really affects teenage workers under eighteen. However S.658 makes no provisions at all for protecting youth workers, such as the "protections" of S.430 and S.348.

The one group that will benefit from these bills is business, especially fast food chains. This is not a Youth Opportunity Wage Act but rather a "Business Profit Opportunity Act". McDonald's, for example, would save 31 cents per share on labor costs and this would result in windfall profits for the business. Workers jobs and rights are more important than business profits.

The proposed subminimum wage is even more dangerous since it would come at the same time as the Reagan budget cuts. Under these cuts the CETA program would be virtually dead by FY 1981. Federal support for vocational training would be reduced 20% from what is planned. On April 2 the Senate rejected an amendment that would have restored \$100 million for vocational training. The Young Adult program of the Labor Department that hires young people ages 16 to 23 to work on public lands would soon be eliminated. The Interior Departments Youth Conservation Corps would also be axed after FY 1982.

Funding for these two programs would be cut \$194 million in FY 1981, \$238 million in FY 1982, \$308 million in FY 1983 and would be eliminated in FY 1984. On April 1 the Senate rejected an amendment that would have restored \$600 million for youth employment programs. This is tantamount to Congress being committed to an increase in youth unemployment. There are progressive alternatives to the budget cuts and subminimum wage. A subminimum wage would encourage desperate students to drop out of high school. Vocational training programs in high schools must be increased to give youth the necessary pre job training. This way a student could get a general high school education, acquire vocational skills and be a fully competent worker upon graduation. While still in high school there are many jobs that youth are as competent to do as adults, and therefore they should at least earn the minimum wage and get all the other benefits adult workers are entitled to.

No one can deny that youth unemployment is at a critical level: 17.7% overall and 36.9% among minority youth in 1980. It is important for legislators to listen to what the youth have to say about issues directly affecting them. The Student Progressive Coalition thinks the government must play a role in solving the problem, and not just leave it to private business. A subminimum wage will allow employers to pay out less in wages and thus may open the way for increased profit at the expense of youth. When the program of the minimum wage was begun, it was to be a minimum pay level for all workers. To have different minimum wages for different categories of workers is discriminatory and defeats the basic purpose of the minimum wage. The STUDENT PROGRESSIVE COALITION therefore urges the defeat of S.348, S.430, and S.658 and urges Congress to look at alternative plans and the government's role in helping develop them.

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United States Senate

COMMITTEE ON LABOR AND
 HUMAN RESOURCES
 WASHINGTON, D.C. 20516

March 27, 1981

Mr. Jane Kirkland
 Presic. +
 AFL-CIO
 815 - 16th Street N.W.
 Washington, D.C. 20006

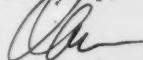
Dear Mr. Kirkland:

During the hearings on the youth subminimum wage, I questioned your conclusion that the targeted jobs tax credit has led to substantial substitution. In support of your conclusion, you quoted from a Congressional Research study entitled "The Economic Rationale for the Targeted Jobs Tax Credit". In reviewing that study, I find that it concludes only that the combination of windfalls and substitution "may be" substantial but makes no conclusion, however tentative, that there has been any substitution. All the evidence cited refers to windfalls, and none to substitution.

As the issue of the extent of substitution was such a crucial matter during the course of the hearing, I would appreciate your review of that study or any other evidence you may have to see if you agree with me that there is no documentation of any significant substitution effect from the Targeted Jobs Tax Credit. I assume that you would also agree that if the substantial incentive of the Targeted Jobs Tax Credit does not result in substitution that there is very little likelihood that the much smaller incentives of a subminimum would do so.

I am informed by the Subcommittee Chairman that your answer to this letter can be included in the printed record if it is received by April 10, 1981.

Sincerely,



Dan Quayle
 United States Senator

DQ/mks

cc: Senator Don Nickles
 Chairman, Labor Subcommittee

AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS

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 JOHN E. CHAMBERS
 JOHN E. CHAMBERS



815 SIXTEENTH STREET, N.W.
 WASHINGTON, D.C. 20006
 (202) 637-8000

April 2, 1981

The Honorable Dan Quayle
 United States Senate
 Committee on Labor and Human Resources
 Washington, D.C. 20510

Dear Senator:

In your letter of March 27 you raise a question about my testimony with regard to the Targeted Jobs Tax Credit program as evaluated by John Fisk in a Congressional Research study entitled "The Economic Rationale for the Targeted Jobs Tax Credit."

In my statement I was careful to note that the study to which I was referring concluded that the evidence suggests that windfalls and job substitutions in the program were substantial.

A review of the report indicates that Mr. Fisk did not refer to a "combination" of windfalls and substitution, as your letter implies.

I have reproduced below the paragraph on page 5 of the report which deals with Employment Effects as well as page 19, the Summary of the report. Neither of these statements uses or implies the term "combination," and clearly indicate substitution.

"B. Employment Effects

"The net increase in the overall level of employment caused by the TJTC will most likely turn out to be smaller than the gross number of participants in the program. Windfalls and substitution, which are discussed below, cause this disparity between the gross and net job creation of the TJTC.

"Even without a special financial incentive, many firms hire individuals with characteristics identical to the TJTC target population. Employers who do this are sometimes able to claim the tax credit for individuals that they would have hired even in the absence of the program. These employers receive what is frequently described as a 'windfall gain.'^{5/} The number of employees who would have been hired in the absence of the program needs to be subtracted from the gross number of participants to determine the net job creation of the TJTC."

"5/ The problem of displacement in public service employment is a similar phenomenon. State and local governments sometimes hire individuals in a public service employment program that they would have hired anyway, thus reducing the number of net new jobs actually created by public service employment."

and

"IV. SUMMARY

"An evaluation of the TJTC should examine the effectiveness of the program in increasing employment among the targeted groups. Also, the extent of windfalls and the extent to which firms substitute eligible workers for ineligible ones should be determined. An evaluation probably does not need to study the effects of the program on an overall rate of inflation, since the program is small enough that only a minimal effect on the national price level may occur. In addition, an examination of the impact of the program on unemployment rates of the targeted groups should keep in mind that unemployment rates may not substantially change if the program both increases employment and attracts workers into the labor force who previously were not seeking jobs.

"Currently, no hard evidence is available on the effectiveness of the TJTC in reducing structural unemployment. A Department of Labor evaluation, which will be available by June 1981, may be the first good detailed empirical study on the effects of the TJTC. Although no detailed evaluations of the TJTC have been completed, there is some limited evidence on the effectiveness of the program. This evidence suggests that windfalls and substitution in the program may be substantial. If this evidence is accurate, modifications in the TJTC's targeting mechanism may be able to reduce the windfalls. Nevertheless, because of the difficulties in identifying the structurally unemployed, a reduction in windfalls will not be easily achieved." (Underlining added.)

Senator Dan Quayle

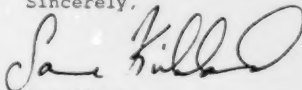
- 3 -

April 2, 1981

I recognized that this study was not the last word on the subject. Therefore, I noted that the Department of Labor was scheduled to release, in June 1981, an empirical study on the effectiveness of the program in reducing structural unemployment.

I appreciate and accept the offer of the Subcommittee Chairman to include this response in full in the printed record.

Sincerely,

A handwritten signature in cursive script, appearing to read "Sam Ricks".

President

cc: Senator Don Nickles
Chairman, Labor Subcommittee.

NATIONAL ASSOCIATION



OF THEATRE OWNERS

APR 10 1981

1500 Broadway New York N. Y. 10036 (212) 730-7420

Vice President & Executive Director
Joseph G. Alterman

April 10, 1981

Honorable Don Nickles
Chairman, Labor Subcommittee
United States Senate
Washington, D.C. 20510

Dear Senator Nickles:

The National Association of Theatre Owners (NATO) supports S. 348, the Youth Opportunity Wage Act of 1981. We are conveying our views today to you and to Senator Hatch. These views are set forth in the enclosed letter.

Sincerely,

G. Glenn Norris
Chairman of the Committee
on National Legislation
President, the Glenoris Corp.

Enclosure

NATIONAL ASSOCIATION



OF THEATRE OWNERS

1500 Broadway New York N. Y. 10036 (212) 730-7420

Vice President & Executive Director
Joseph G. Alterman

April 10, 1981

Honorable Orrin G. Hatch, Chairman
Committee on Labor and Human Resources
United States Senate
Washington, D.C. 20510

Dear Senator Hatch:

The National Association of Theatre Owners (NATO) represents over 8,000 motion picture theatres across the country. On behalf of NATO's members, I want to take this opportunity to convey our enthusiastic support for S. 348, the Youth Opportunity Wage Act of 1981.

It is the collective judgment of many members of the motion picture theatre industry that S. 348 will create more job opportunities for America's youth. This judgment is based in part upon economic factors which underlie the motion picture theatre industry.

At least 50 percent of the gross income of a typical motion picture theatre is spent on film rentals. Payroll is the next most significant cost for motion picture theatres. In order to survive in the highly competitive leisure market, theatre owners have been forced to reduce their payroll costs to a minimum. Over the years, payroll costs have been reduced by the increased use of automation and other labor saving techniques. The net result has been the elimination or drastic reduction of job opportunities for youth in the motion picture theatre business. Ushers, doormen and other jobs requiring unskilled labor have been eliminated in the continuing effort to keep payroll costs at a minimum. The members of NATO believe that a youth wage differential will encourage the retention of these unskilled positions and may help restore these employment opportunities in theatres where they have been eliminated.

Labor costs have forced the closing of hundreds of theatres across the country. The impact of theatre closings has been felt by all communities. People living in rural communities who rely on movie theatres as a major source of entertainment are finding more and more that they must drive

Senator Orrin G. Hatch

2

April 10, 1981

long distances to see the latest in movie entertainment. And in many of the major cities across the country, people who have no access to transportation to take themselves out to the suburbs have witnessed the closing of hundreds of neighborhood theatres. NATO believes that a youth wage differential would help reduce the number of theatre closings throughout the country.

There are also some practical reasons why the members of NATO feel that S. 348 is necessary. Jobs in the motion picture theatre industry have been the traditional point of entry into the labor market for thousands of teenagers and young adults. The experience that these individuals gain while working in movie theatres enables them to later move upward into more meaningful jobs. Viewed in this context, the nation's movie theatres provide important "first-time" employment opportunities for America's youth which should be preserved. The members of NATO feel that S. 348 will help significantly in this regard.

As your Committee reviews S. 348, we urge you to consider two amendments which would increase the ability of the movie theatre industry and other small businesses to provide youth employment opportunities. The first relates to the period in which the youth differential applies and the second relates to the gross income level at which the minimum wage must be paid.

Movie theatres are one of hundreds of businesses which employ young adults on a part-time basis. The most recent Department of Labor study shows that employment in the motion picture theatre industry averages a fraction above 22 hours a week. This same report reveals that only 10 percent of the movie theatre workforce works 40 or more hours per week.

S. 348 provides that the youth wage differential would apply for a period of 180 days. The benefits of this provision, from an economic standpoint, are less significant for part-time businesses than for the full-time industries which employ young adults on a full-time basis. For example, the 180 day period would allow industries employing youth on a full-time basis to pay the youth differential for over 1,000 working hours, based upon a 40-hour work week. For a business in which employees average only 22 hours per week, the full benefit of the youth wage differential would never be realized.

Accordingly, the members of NATO urge you to consider an amendment which would allow businesses that regularly employ young adults on a part-time basis to pay the youth wage differential for a period of 1,000 working hours. Such

Senator Orrin G. Hatch

3

April 10, 1981

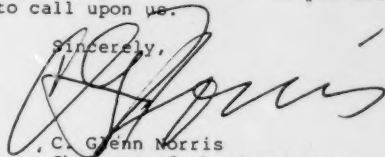
an amendment would make the youth wage differential an even greater incentive for businesses to provide job opportunities for America's youth. This amendment is entirely consistent with the goals of S.348, and would make the youth wage differential fully available to employers of part-time personnel.

NATO also urges you to consider an amendment which would allow small theatres and other part-time businesses operating in diverse geographical locations to be viewed as separate entities within the context of the minimum wage gross income level exemption of the Fair Labor Standards Act. There are many instances where a business operates two or more theatres located in diverse geographical areas. Under the Fair Labor Standards Act, the income from these diversely located theatres is grossed together for determining the gross income level at which a theatre must pay the minimum wage. I speak from experience when I say the practical impact of this provision has been the closing of movie theatres serving small and rural communities.

My partners and I operated a small theatre in Marion, Virginia. This theatre provided movie entertainment for a community of approximately 10,000 people. The next closest movie theatre to Marion is over 30 miles away. Because we operated theatres in other small communities in that part of Virginia, our combined gross income from all these "small community" theatres exceeded the gross income level. Thus, we were required to pay minimum wages to all our employees. This precluded our qualifying for the exemption from payment of the minimum wage under the Fair Labor Standards Act. As with other smaller theatres, our margin of profit was so narrow that the payment of the minimum wage was costly enough to cause us to close the theatre in Marion.

Thank you for the opportunity to present our views. If we can be of assistance to you or your Committee as you consider S. 348, please feel free to call upon us.

Sincerely,



C. Glenn Morris
Chairman of the Committee on
National Legislation
President, the Glenoris Corp.

Statement of Simon Rottenberg to Senate Labor Subcommittee
on youth differential minimum wages.

My name is Simon Rottenberg. I am Professor of Economics at the University of Massachusetts, Amherst. I have previously taught at Duke University, the State University of New York at Buffalo, the University of Chicago, and the University of Puerto Rico. I have a doctoral degree in economics from Harvard University and my thesis dealt with labor market analysis. I have been a student of labor market behavior for four decades and have published a number of papers on aspects of the economics of labor markets in professional journals. I am the Director of Minimum Wage Studies of the American Enterprise Institute for Public Policy Research.

Labor markets are institutions in which the services of workers are transacted. Those services are very diverse because a very large number of different tasks are performed in the economy and because workers are non-homogeneous in their training and skill and other qualities, as well. Some classes of workers are substitutable in production for other classes and some other kinds of factors of production, as, for example, capital instruments, are also substitutable for workers.

Some workers are more specialized to particular tasks than are other workers but, in general, there are alternative uses to which labor services can be put in the production of commodities and services.

Some industries are labor-intensive. That is to say, in the production of their products, they employ a large number of workers, relative to the quantity of other factors of production that they use. Other industries are less labor-intensive.

In a market economy consensual exchanges occur. Employers bid for the services of workers and workers offer their services. Exchanges take place when bids and offers are accepted and implicit contracts are consummated. When transactions are consummated, both workers and employers are advantaged; both are better-off than they would have been in the absence of the transaction. This must be true because each of the parties to the transaction has the alternative option of arranging some other exchange, different from this one; if any arrangement is chosen over all other alternatives, we assume, given that transactions are not coerced, that this is preferred to other options that are available.

The network of labor markets is a constellation of institutions through which ^{workers} distribute themselves geographically within the country and distribute themselves among occupations and industries. It is a network that also serves to distribute people between the status of work or search for work and that of schooling, retired non-work, and various non-market activities, such as tending one's home and children.

Conventional economic theory of the labor market tells us that, in competitive labor markets, in which behavior is guided by the different wages paid to labor in different employments,

workers are distributed efficiently among occupations and industries and they are distributed efficiently as between work in the labor market, work in non-market activities, schooling, and the consumption of leisure during retirement and during vacations.

In such markets, the wages of labor of different kinds and different levels of skill express the social scarcity value of labor. In such markets, the wages paid to workers are equal to labor's marginal contribution to output, so exploitation does not occur. Workers in such markets are allocated among occupations and industries in such proportions that the community secures the "basket" of commodities and services that will maximize its welfare, labor of different classes is put to its most highly valued uses, the output of the economy is maximized, given its resource constraints, and, in combining factors of production to produce the economy's output, the least-cost and most efficient combination is employed.

In such competitive labor markets, workers are given socially optimal incentives to acquire skill and firms are given socially optimal incentives to train workers. The socially appropriate quantity of human capital is formed.

In competitive labor markets in which there is no interference with the competitively determined price of labor services, workers are, from the standpoint of the welfare of society in the aggregate and also from the standpoint of the workers, themselves, in the right place, the right occupations and industries, appropriately combined with other factors of production, and they produce an appropriate set of commodities and services.

These are propositions derived from ^{the} conventional theory of economics which has been distilled from some hundred of years of intensive intellectual reflection by a cohort of persons of high intelligence, applying principles of logic and testing "or the implications of" the theory by sophisticated observation of real experience in the world.

The intervention of government into labor markets, as through the enforcement of legal minimum wages has, however, introduced distortions.

The minimum wages laws have caused some kinds of labor services to have a price that is higher than that which correctly expresses its scarcity value to society. As a result, behavior has adjusted to these socially-inappropriate signals.

Employment of the relevant classes of labor is less than would otherwise occur. Substitutes for labor have been introduced. These are either substitute factors of production or they are different ways of organizing work ^{so} that it becomes less labor-intensive. Some labor-intensive commodities and services either cease to be produced or the quantity of them that is produced is diminished. The society gets from its resources a smaller quantity of output than ^{it} would otherwise have. Its product is less efficiently produced. The combination of factors of production is proportionally wrong; too little labor and too much of other factors are employed in production so that the real resource cost of society's output is enlarged. Therefore, the quantity of poverty in society is increased and the poverty of the already-poor is made more intense.

Since minimum wage laws push up the price of labor at the bottom of the range of wages for workers of different levels of skill and tends to compress the range of wages, they diminish the incentive of workers to invest in the acquisition of skill. Firms, knowing that training of lower-skill-level employees imposes upon them costs of materials-waste and of the instructional time of journeymen workers, find that they cannot earn a normal return on investment in training, given the higher minimum wage that the law requires them to pay to untrained workers; thus, on-the-job training programs are contracted. Less human capital is formed by the society.

Those who cannot contribute to output an increment that has a value as high as the wage that the law requires that they be paid find it difficult to find employment. This is especially true of unskilled young people with relatively little formal schooling. The minimum wage law produces unemployment for them. Protracted long-period unemployment of these young people leads them to engage in ^{socially} adverse behavior, including entry into activities that are at or beyond the margin of the law. The quantity of victimization of others in society becomes larger.

The distribution of the costs imposed by legal minimum wages is not uniform. ^{The cost} / falls most heavily upon the unskilled, unschooled young. It falls also heavily upon regions of the country where labor is relatively abundant.

Indeed, minimum wages laws have been promoted most intensely by privileged classes of workers to diminish the competition for

the performance of labor services by less privileged workers and by workers in less privileged regions of the country. Legal minimum wages are, thus, regressive in their effects and they have been instruments for the intrenchment and intensification of privilege.

A clear example of how this process operates can be seen in South African experience. There, for many decades, privileged white unionized workers have insisted on the enforcement of "equal pay for whites and blacks" minimum wage rules to govern wage payments to blacks in occupations also employing whites. They have openly supported that policy not because they seek justice and the improvement of the conditions of life for black workers; rather, they have done so because they seek to inhibit the employment of blacks in occupations staffed by whites. They have sought to make blacks less effective competitors in the market for labor services. Unquestionably, this case shows that minimum wages by law can be an effective instrument for preventing the redistribution of income and wealth from the relatively well-off workers to those who are worse off.

There is a great deal of evidence that young people in this country and especially young black people have been victimized in this way by the ^{imposition and} enforcement of minimum wage laws. They have been made worse-off, so that other classes workers who are relatively privileged could be advantaged. Unemployment rates among them are massively high. Many of them, faced by persistent unemployment of long duration, engage in socially deviant behavior that impose costs upon the citizenry.

A reduced minimum wage for young people, below the legal minimum defined for adults, would tend to redress the balance. and increased on-the-job training of them
it should lead to increased employment of the young/and should
lead to less social deviance among them.

I recommend that a youth differential minimum wage be enacted by the Congress.

Jacob Mincer
March 1981

Effects of Minimum Wages on Employment
Unemployment, and Skill Formation of Youths

I. Introduction

Despite four decades of existence, minimum wage laws are a continuing subject of controversy in the political arena. Their stated intent- the alleviation of poverty - is proclaimed by proponents and accepted by the public as a fact requiring no further evidence. At the same time, economists who question the wisdom of minimum wage hikes, by pointing to adverse employment effects, are asked to provide evidence on the validity of the basic law of economics, that of the negatively sloping demand curve- from which the adverse effects follow. Apparently, when social legislation conflicts with scientific laws, the burden of proof is on the latter!

Now, it is true that a number of economists, including myself, have spent some time investigating effects of minimum wage legislation- not in order to verify the existence of adverse effects on low wage workers, but first in order to estimate magnitudes of effects, and second, perhaps more importantly, to study or at least reflect on a number of other effects especially relevant to the plight of youth, and ranging from adverse effects on skill formation to instability in labor market, school, and other forms of behavior.

At the outset, we should note that econometric research must rely on periodic changes in minimum wage levels and in their coverage in order to study the temporal covariation in employment and in other related variables. This has two consequences: (1) Only short-run effects may be discerned in such data treatments, and (2) Since a variety of changes take place concurrently with minimum wage changes, the isolation of the magnitude of effects of the latter cannot be obtained with precision. The varying

estimates obtained by different investigators depend on the nature and size of their sample (both in numbers of people and of time periods observed), on the specification of their models (which variables are to be included and in what form), and on the statistical methodologies used.

In viewing the potential impact of the minimum wage it is useful to see it in relation to all other wage levels. For this purpose, a widely used statistic is the ratio of minimum to average wages, in the economy or in sectors of it. The minimum wage ratio, so defined, is practically trendless, but it does show sawtooth fluctuations: as it increases, the minimum is increased stepwise, while subsequently economy-wide growth and inflation erode the ratio. Although the pay ratio was roughly trendless, the industry coverage of minimum wages has increased continuously from about 40% of the work force initially to close to 90% at the present time. Coverage relevant to teenagers was lower initially and it has risen at least as dramatically, especially when coverage was extended to retail trade in the early sixties.

The pay ratio and coverage statistics do not capture all the dimensions of minimum wage provisions for several reasons: (a) In some states and cities local minima extend the coverage, and in some cases raise the level of the federal minimum. (b) Special groups of covered workers can be hired below the minimum through exemptions issued by the Department of Labor, and (c) Compliance with the law is not complete.

These complications may be a minor source of inaccuracy in time series analyses, and they are more likely to obscure cross-section studies. Actually, past studies even ignored the coverage variable, an omission that has been corrected in most recent research published in the 1970's.

It is important also to distinguish analytically and empirically between (reductions in) employment and (increases in) unemployment. These have been studied as alternatives, or have been carelessly confused, as if the terms were interchangeable. A given reduction in employment in the covered sector need not be fully reflected in unemployment figures, since some of those who lost employment in the covered sector may find employment in the sector not covered by the legislated wage or in the armed forces, and others may withdraw from the work force into households, schools, go on welfare or into some unreported activities. On the other hand, there is also the theoretical possibility that resulting unemployment may exceed the decrease in employment. This could happen if the higher wage in the covered sector attracts job searchers from other sectors and from outside of the labor force.

2. Effects on Youth Employment and Unemployment

Research during the past decade suggests a range of estimates of elasticities of youth employment with respect to the minimum wage variable to be between .1 and .3. That is to say, a 10 percent increase in the minimum wage or in coverage reduces employment of youths (age 16-24) by 1-3 percent.

Although the youth demographic group singled out for study is a low wage group on average, only a part of that group is at risk, one that has below minimum wages and is covered by the law. The aggregation blunts the estimated effect in two ways: (1) Some members of the group

(whites and students) may gain in employment as superior substitutes for the unemployed, and (2) the unemployed from the covered sector may find employment in the "free" sector. Thus, for the group as a whole net unemployment may be negligible while the relevant unemployment (of the adversely affected subgroup in the covered sector) may be sizeable. ^{U.S. C.} Instead, studies of more homogeneous groups, such as low wage industries reveal unemployment effects that are three times as large.

Turning to unemployment, estimated effects are usually small, about one-third of the size of reductions in employment. However, little comfort can be taken in such findings. If, as seems to be the case, labor flows out of the covered sector as a result of minimum wages, partly into the non-market, unemployment may be negligible even if disemployment is sizeable. Indeed, given disemployment, the smaller unemployment the larger the adverse effects on labor force participation. Among non-students, the adverse effect on employment and labor force participation are especially pronounced for black youth.

The meaning of employment and unemployment effects among students who comprise the bulk of the teenage group (over 2/3) is problematic. Mattila has shown that the employment of students tends to increase when minimum wages are raised. This is because of induced prolongation in schooling of students who would otherwise prefer the labor market, and because employers prefer to substitute students for non-students in the casual jobs to which minimum wages apply, or which are engendered by them. In part, the preference for students is also due to minimum ^{such} exemptions which often apply to students.

3. Effects on Skill Formation

The early labor market difficulties engendered by the minimum wage cannot be evaded by youths who are either unwilling or unable to prolong their schooling. The problems they face are not restricted to declines in demand due to a particular timing of a minimum wage increase. The difficulties are more insidious affecting long-run career prospects. The alternative form of acquisition of education and occupational skills through schooling is formal or informal job training or learning on the job. Indeed the latter is the traditional and still the most prevalent mode of skill formation throughout the world. The effect of the institution of minimum wages is to destroy incentives of employers to provide job training to low-wage low-productivity youths whether in formal apprenticeships or informally: job training whose usefulness is not restricted to the firm which provided it must be financed at least in part by the worker or apprentice, usually in the form of a reduced initial wage. This means that even if current productivity of employed youngsters warrants paying the minimum wage, job training is precluded for many of them since its provision would require paying initially a subminimum wage.

Thus the existence of minimum wages and employer expectations that they will continue to be raised at least as fast as the average wage level leads to the following responses on the demand side:

- (1) A reduction in the availability of steady unskilled jobs (as distinguished from "peak-load" and seasonal jobs in which rates of pay are usually higher anyway).
- (2) A shift of employer hiring preferences away from a non-student, less educated and inexperienced work force toward more educated and experienced labor, and

(3) A decline in provision of formal or informal apprenticeship to the uneducated low-productivity young workers.

Incidentally, the shift in hiring preferences away from non-student, uneducated young work force was strengthened by the effects of the expansion of minimum wage coverage on the industrial distribution of teenage employment: while 40% of teenage workers used to be employed in manufacturing before FLSA, this percentage dropped more than half by the mid-fifties, as practically all of manufacturing was covered by the minimum wage almost from the start. The shift of teenage employment away from manufacturing and toward trade and service sectors is compatible with growing part-time and part-period activities as is schooling. One may argue that growth of schooling resulted in greater supplies of teenage workers to these sectors, but it seems reasonable as well to view both the growth of schooling and of part-time student employment in trade and services as induced, in part, by minimum wage developments.

Research of Welch confirms that the differential extension of minimum wage coverage contributed to the shift of teenagers from manual to service jobs. We should note that in service jobs such qualities of workers as appearance, articulateness, literacy, and numeracy are more important than in manual jobs, and a double premium was put on such qualities when minimum wage coverage was extended to trade and service sectors in the early sixties.

The evident perception on the supply side is that the route to advancement in the labor market, even for those not much interested in further schooling is more schooling.

Some of the induced and reluctant students alternate between schools and labor markets trying to find their way to a future that is uncertain. Most adversely affected are young people who are not able or willing to stay longer at school. The ironic fact they face is that while further schooling is publicly subsidized, opportunities for job training leading to advancement are blocked by the minimum wage especially for the less educated low achievers. Although this is by no means true of all, many young school dropouts must therefore choose between jobs with little opportunity for advancement or to become a labor market dropout as well. In this connection, the high levels of non-participation among black teenagers in inner cities are, or should be, at least as much cause for concern as are their reported unemployment rates, especially since the latter is a less reliable statistic than the count of people who are not working, whatever the overt reason.

Of course, the minimum wage is not the only reason for the plight of black youth in the poor city neighborhoods. Impediments in the development of personality and of general skills range from broken or unstable families, welfare dependency, negative peer and street life influences, and- both cause and effect- poor or nonexistent schooling. One may argue that the attractiveness of alternatives such as welfare or illicit activities, is enhanced by difficulties in the job market which are partly due to minimum wages. Conversely, these alternative opportunities, as it were "prop-up" or "enforce" the minimum wage on the supply side. Thus, even though minimum wages have contributed to the growth of such alternatives, given their proliferation and easy access to them, a reduction in the minimum wage may not stimulate much supply toward the labor market, even if it stimulated demand.

At this stage, I fear that not much can be accomplished unless pathological alternatives to the labor market are also reduced.

4. Does the Minimum Wage Help the Poor?

An affirmative answer to this question is taken for granted by proponents of minimum wage, who ignore or tend to deemphasize the employment effects. Even if we leave the employment effects aside, does the higher wage received by youth working at minimum wages help to reduce poverty at least in the short run? To answer this question we need to know whether families of such youngsters are indeed worse off than the other families.

The answer to this question was not available prior to 1973 Census (CPS) statistics on the matter became available. Defining low wages as less than \$2 per hour in 1973 (the minimum became \$2 in 1974) Gramlich found that full-time teenage workers whose wages were below \$2 an hour were just as likely to be members of families who were in the lower half as in the upper half of the income distribution. In other words, there was no correlation between wages of teenagers and their family income.

Only one out of four teenage workers works full-time. The correlation between wages of part-timers and family income is actually negative! Teenagers who earned less than the \$2 an hour lived in families whose median income was about \$13,000 in 1973, while those who earned more than \$4 an hour lived in families with median income of \$7,500!

For working teenagers as a group, somewhat more than a half lived in families with above average incomes. Those working part-time, and these are largely students, had wages lower but family incomes higher. Evidently, those youngsters who are in the lowest economic strata have more work experience than students if they have jobs, but a large proportion of them is either unemployed or not even searching for jobs.

Consequently, even if minimum wage hikes raise the earnings of low wage teenagers who do not lose jobs, much or more of ~~that~~ ^{the gain} ~~will~~ ^{goes} to above-average income families. This is certainly not the avowed intention of minimum wage legislation.

J. Mincer
Professor of Economics
Columbia University



National Association
of Manufacturers

Industrial Relations Department

APR 2 1981

April 1, 1981

The Honorable Don Nickles, Chairman
Subcommittee on Labor
Senate Committee on Labor and Human Resources
United States Senate
Washington, DC 20515

Dear Mr. Chairman:

The National Association of Manufacturers would like to offer its views concerning the youth subminimum wage proposals.

The NAM is composed of over 12,000 manufacturing and related concerns, 80 percent of which have 500 or less employees. In addition, NAM has more than one hundred manufacturing trade associations as members of its Associations Department representing approximately 30,000 firms and is further affiliated with another 128,000 manufacturing firms through its National Industrial Council.

The continually high unemployment rate for the under 20 age group is a critical issue which must be addressed. The minimum wage law harms the very people it is intended to help by making it too expensive for employers to hire many unskilled and minority workers, many of whom are teenagers. NAM remains firm in its belief that if the present minimum wage rate is again increased, it will have adverse effects upon the youth unemployment problem and the entire economy.

NAM supports a subminimum wage for youth to help solve this grave problem. Well meaning programs in the past have obviously not helped these younger workers when the latest statistics place the youth unemployment rate at approximately 18 percent, which is more than double the overall unemployment rate of 7.5 percent.

Studies pertaining to this issue differ on just how effective the subminimum wage would be in reducing our unemployment situation. The studies which oppose the youth differential focus mainly upon the presumption that a youth opportunity wage would displace older workers from employment. These studies do not concentrate upon the basic objective of this concept -- that is job creation. Given

the opportunity to hire and train younger workers at a lower wage rate will give employers the incentive to create new jobs -- particularly those jobs which existed before the minimum wage went so high as to eliminate them.

NAM maintains that a subminimum wage alone is not the answer to solving the youth unemployment problem. Other programs working toward the same result, that is job creation in the private sector, will also have to be utilized. Business participation on Private Industry Councils (PICs) and implementation of the Private Sector Initiative Program (PSIP) will also help to alleviate this unemployment situation. We must search for the right combination of these programs to begin making headway in finding a solution. Public and private training programs will continue to provide an upgrading of the necessary skills for these younger workers, but these groups, especially the inner city teenagers, have got to receive the immediate opportunity to get a foot on the first rung of the employment ladder. The youth differential could provide employers the incentive to hire the inexperienced young worker.

No one can estimate just how many jobs would be created by a youth wage differential program. NAM suggests that this concept be initiated on an experimental basis for several years and carefully monitored to determine its precise impact. Entry level jobs are the key to the beginning of an upward move for many youths in school and in job transition.

Today, qualifying students may be hired at 85 percent of the minimum wage under existing exemptions to the Fair Labor Standards Act. The youth differential for all teenagers is no more radical than arranging a similar program for young people whose future is far less promising than that of college students with summer jobs. It could give many hard core, unemployed youngsters a chance to enter a society from which they have been excluded.

In conclusion, NAM submits that this concept should be tried as part of a broad-based youth employment strategy. We respectfully request that this letter be made part of the record of the current hearings.

Sincerely,

Brenda McChriston
Brenda McChriston
Director
Human Resources and
Equal Opportunity

BMC/th

cc: The Honorable Orrin Hatch, R-UT
The Honorable John East, R-NC
The Honorable Robert Stafford, R-UT
The Honorable Dan Quayle, R-IN
The Honorable Paula Hawkins, R-FL
The Honorable Harrison Williams, D-NJ
The Honorable Edward Kennedy, D-MA
The Honorable Jennings Randolph, D-WV
The Honorable Donald Riegle, D-MI

Senator NICKLES. Thank you very much. The meeting is adjourned.

[Whereupon, at 1:02 p.m., the subcommittee was adjourned.]

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